

THE BENEFITS OF OFFSHORE OIL AND GAS DEVELOPMENT

OVERSIGHT FIELD HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY AND
MINERAL RESOURCES

OF THE

COMMITTEE ON RESOURCES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

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Saturday, August 13, 2005, in Port Fourchon, Louisiana

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OVERSIGHT HEARING ON THE BENEFITS OF OFFSHORE OIL AND GAS DEVELOPMENT

**Saturday, August 13, 2005
U.S. House of Representatives
Subcommittee on Energy and Mineral Resources
Committee on Resources
Port Fourchon, Louisiana**

The Subcommittee met, pursuant to call, at 9:30 a.m., at the Operations Center, 108AO Rappelet Road, Port Fourchon, Louisiana, Hon. Jim Gibbons [Chairman of the Subcommittee] presiding.

Present: Representatives Gibbons and Jindal.

STATEMENT OF THE HON. JIM GIBBONS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEVADA

Mr. GIBBONS. Ladies and gentlemen, good morning. This is the field hearing of the Subcommittee on Energy and Mineral Resources for the U.S. Congress. We are pleased to be here today.

Before we begin this morning, we have a tradition. We would like to ask you all to rise, and we'll ask our Boy Scouts and Cub Scouts over here to present the colors and lead us in the Pledge of Allegiance.

[Pledge of Allegiance.]

Mr. GIBBONS. We also have another tradition we do before we take testimony here: We swear in our witnesses. So, if I can get our witnesses to rise and raise their right hands and repeat after me.

[Witnesses sworn.]

Mr. GIBBONS. Let the record reflect that each of our witnesses answered that oath in the affirmative.

The process this morning will be to have opening statements from the Members here from Congress, and then we will ask our witnesses to testify, and then we will ask questions of them.

I will begin by submitting my full and complete written statement that I have here for the record. What I would like to do is just take a moment, before I turn to Mr. Jindal and his statement, and tell you what my experience has been here in Louisiana so far.

I have been hosted by Mr. Jindal and Mr. Melancon. They have invited our Committee down to this area to see the infrastructure, to see what it is that this great state is contributing to both the security and the economy of the United States.

We took a trip out to Anadarko's deepwater drilling ship yesterday. We stopped by Chevron's rig that—the Petronius rig, and then we toured the LOOP area of the infrastructure and then came in and looked at the Port Fourchon facilities.

Let me say that, throughout the whole day while we were on this little expedition, I met some of the greatest people I have ever met. I truly have to admit that, when we talk about heroes, we oftentimes talk about our military; but when you go out to these ships that are so far out in the middle of the ocean, the Gulf of Mexico, people who live out there for weeks on end, doing nothing but 12-hour shifts of hard work to provide the energy for this country, the energy that drives the economy, you have to admit, these are heroes for the American public.

So, I want to say thank you for not only everything that your state does, but what the contribution of this great state and this industry provide for the rest of the nation.

I come from Nevada. We are an extractive industry state, but ours isn't oil or gas. Our industry is mining. We understand what it takes to contribute to the economy, what work it requires, what commitment it demands from people.

We are thrilled when we came here to be hosted by your Representatives in Congress, we are thrilled to be hosted by the industry, we are thrilled to be hosted by your community. It is fantastic to be here. I'm very pleased.

I met one individual named Paul on the Petronius, he works for Chevron, and his wife is a school teacher. So, not only is Paul out there working 12-hour shifts for this country, his wife is teaching young boys and girls what it takes to be a hard-working, contributing part of our society as well.

And these are the kinds of American heroes that are out here in our communities.

So, I just want to finish up real briefly by saying thank you. Thank you from those of us in Nevada and thank you from those of us in Congress, who represent America, for what you do and what you give. We understand the problems. We understand the infrastructure needs. We understand the security much better today. We understand the problems with the coastal areas of this state much better today than we ever did before.

The information that we will gather today will be taken back to the U.S. Congress to the Committee on Resources, and it will be very, very valuable to our—not only better understanding the problems, but interpreting what the solutions should be from the Federal side, so that we can do our job better to help you do your job, to make the quality of life we all enjoy so much better.

With that, I want to thank all of you for coming. I want to turn now to Mr. Bobby Jindal from Louisiana for any opening remarks he might have.

[The prepared statement of Mr. Gibbons follows:]

**Statement of The Honorable Jim Gibbons, Chairman,
Subcommittee on Energy and Mineral Resources**

American consumers are feeling the pinch caused by increased costs to produce and deliver goods and services while the federal government continues to foster domestic energy policies that restrict access to geologically prospective areas and discourage investment in the production of larger energy supplies here at home.

Consequently, jobs are being sent overseas while our Nation retains high natural gas prices. Similarly, high oil prices also impact every aspect of our economy. From truckers and airline pilots getting goods to markets throughout the country to mothers and fathers loading up the car for a trip to grandma's house, the rising cost of oil has increased the economic burden for everyone.

Increasingly, domestic U.S. energy production is found offshore where a majority of future oil and natural gas resources are believed to be located. In fact, according to the Minerals Management Service, it is estimated that 60 percent of the oil and 59 percent of the natural gas yet to be discovered in the United States are located on the Outer Continental Shelf (OCS).

Furthermore, domestic offshore oil and natural gas production currently provides approximately one-quarter of the natural gas and 30% of the oil produced in the United States.

But this engine of energy supply is also a huge revenue raiser. In 2004, the domestic offshore oil and gas development generated some \$8 billion in royalties.

So, why don't we have more offshore oil and natural gas development in other areas of the country—on the Atlantic and the Pacific, or even just a few hundred miles from here in the Eastern Gulf of Mexico? It is my belief that these States just don't understand all the positive impacts associated with offshore energy development.

That is the reason this Subcommittee meets today—to hear testimony on the benefits of offshore oil and gas development. From secure and reliable supplies of energy to jobs and economic growth, the domestic offshore oil and gas industry positively impacts the nation, its producing states and their communities.

Now, is this system that employs thousands of Louisianans, provides huge tax revenue, and supplies the country with its energy needs perfect? No.

And are there "lessons learned" that the federal government should take into account as it seeks to modernize its laws and looks to other offshore areas of the country for offshore development? Yes.

For example, unlike the Mineral Leasing Act that governs onshore federal lands leasing, States do not share in federal revenues generated beyond their waters. Our Committee sought to change this anomaly in the Energy Security Act just signed into law by President Bush, but owing to Senate objections, the provision was not included in the new law.

Our full committee Chairman Richard Pombo has stated that our efforts to extend a State revenue sharing provision on submerged lands beyond the State waters will continue, because we believe revenue sharing with Coastal States off whose shores federal leasing takes place is justifiable by precedent and practice, and should serve to aid communities who receive impacts from any offshore development.

I expect we'll discuss these and a variety of other related issues today, and I welcome all our witnesses and thank them for coming out to testify before the Subcommittee on this beautiful Southern Louisiana Saturday in August.

I also want to thank Congressman Melancon and Congressman Jindal for hosting the committee in their fine state.

Before recognizing the witnesses, I now turn to my good friend from just north of here—Congressman Bobby Jindal—for any opening remarks he may wish to make.

I also understand that a representative of Congressman Melancon is here and is prepared to deliver brief opening remarks on behalf of Mr. Melancon.

STATEMENT OF THE HON. BOBBY JINDAL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF LOUISIANA

Mr. JINDAL. Thank you, Mr. Chairman. With your permission, I would also like to submit my official opening statement for the record.

First of all, I want to thank so many people that are here. Obviously, our hosts for the last couple of days, starting obviously with the Chouests, but also Chevron and some of the others. The MMS and so many others have gone out of their way to show the Chairman and me and other Committee staff what is involved in producing energy for our great nation.

I also want to thank our state representatives and senators that are here as well and that have come today to show their support for the area and the industry. I want to make just a few points.

First of all, I am going to apologize to the Chairman and Charlotte for repeating a story that I shared with them last night at dinner. One of the reasons that I know that Charlotte and I both felt this was so important to have our Committee come down here, I want to share a story about my little three-year-old girl.

We took her strawberry-picking at the beginning of this year in Ponchatoula, Louisiana. Now, I'm going to tell you this story because it kind of reminds me of some of the attitudes sometimes here outside of Louisiana and Congress when it comes to producing energy.

We were taking my little girl for her first time to go visit a farm. I said to her, "Now, Sweetheart, we are going to see where strawberries come from and potatoes and onions" and I said, "You know where all those things come from?" I was trying to prepare her for going out on this farm and riding the tractors and having a good time. She looked at me like her Daddy didn't know a lot. She said, "Of course, Daddy, I know where those things come from. They come from Wal-Mart." They come from farms.

Let me explain to you why that is important. So often when we debate our nation's energy needs, sometimes I believe there are people out there that think that energy just comes when you turn on a switch, or you go to the gas station and you listen to some people that don't want production, or don't want any type of production. And then they wonder why gasoline costs \$3 a gallon. They wonder why we are losing our industry overseas. They are wondering why Louisiana the last few years has already lost over 5,000 petrochemical jobs.

My family—I was born and raised down here. My family has grown up in this industry. The reason we have jobs in my family is because there is an oil and gas industry. My wife is an engineer, my father is an engineer, my father-in-law is an engineer, my wife's uncles are all engineers. I was kind of the disappointment in the family. I couldn't be an engineer, so I went to Congress instead.

But I want to make four quick points not only for the record but for my colleagues here. First is that Louisiana is proud to do more than its share to secure our nation's energy demands. We, as everybody in this room knows, we provide 25 to 30 percent of the nation's energy; 18 to 20 percent comes through this port alone. For decades, we have done more than our share to make sure we have a domestic source of energy.

Congress has just passed an energy bill reaffirming our commitment to becoming energy independent over the next 25 years. We've got within North America reserves to do that. It will develop the technology and it will develop those fields. I don't think any of us needs a reminder of how dangerous it is for us to become overly dependent on foreign sources of energy. We have seen what that can do to our economy. We can see now, in an international competitive economy, we can see what that does for our dollar. We are now increasingly fighting China and other countries for limited energy resources.

Second, I want to make sure that we are very aware of the infrastructure which is required to support that industry. Everybody here knows the importance of the Leesville Bridge. We had a nice

conversation last night about the rising costs of that global economy is causing the cost to build our infrastructure to increase dramatically. And how foolish would it be for our country not to invest in a little bit of infrastructure to continue to have access to this great energy. To me, it seems like it is such an easy argument to make, that the Federal government should be working with us building that bridge, and working with us to help this port expand.

The Chairman asked some great questions yesterday about the port's ability, and we will hear some testimony about the port's ability to accommodate growth, and what a great thing that here in this state we do want to accommodate that growth, we do want to expand the infrastructure. But we need our nation's help. We are willing to provide the nation's energy, but we need our nation's help.

Which brings me to the third point. No conversation about this topic would be complete without a conversation on coastal erosion and subsidence. 30 miles a year. And, clearly, this is not just a Louisiana problem, this is a national problem. And we had a wonderful presentation last night. We will hear some more today about the problems, the levees and the other things that have contributed to not only the national economy and economic growth, but have also contributed to a loss of our land right here in Louisiana. We just have had this year already a record number of named storms so early in the hurricane season. We have seen levees that were built for Level 4 hurricanes can't withstand Level 3 hurricanes. We are losing our barrier islands. We're losing the marshlands that not only protect our fragile and unique ecosystem, but protect lives and protect property.

Now, this Committee was very supportive of a provision we got in the House-passed energy bill that would have given Louisiana a recurring source of revenues of a billion dollars a year. With the Chairman's indulgence, I want to make this point very strongly. Other states that have drilling on their Federal land get to keep 50 percent of those revenues. The State of Texas gets to go out 10 miles off their coast. All we asked for in the House-passed energy bill was just 18 percent. Listen, we're not even asking for the billions of dollars you made in previous years; we're not even asking for 50 percent that other states get. We just want 18 percent. That would have been a billion dollars a year. Think what we could have done to restore our coast and rebuild the infrastructure.

Now, I'm thrilled we are able to get through conference a billion dollars. I'm thrilled that Louisiana will get hundreds of millions of dollars over four years. Over \$500 million. I'm thrilled that that will be shared with the parishes in the state. Don't get me wrong, that is the most money we have had from the Federal government for our coast in the history of our—in our country's history. I'm thrilled that we stand poised to get as much as \$1.9 billion out of the water bill. I'm thrilled that we now have an explicit commitment from the Federal government that this is a Federal responsibility. We have an explicit commitment from them; they understand this is not just a Louisiana problem.

But we have to make sure, and one of the reasons I'm so excited to have the Committee down here, we have to make sure the people in Congress understand, there is an ongoing Federal respon-

sibility. This is not a problem that we've fixed. We are taking the first critical steps at a Federal level to address this. But in the same way that New Mexico, to pick one state, New Mexico gets \$1 million a day from their Federal lands by sharing those revenues, it is only fair that Louisiana should also benefit.

Fourth, and finally, is that one of the amazing things we were able to show the Chairman and other staff members is that, here in Louisiana, we are able to promote and encourage energy production, while at the same time also protecting and preserving our environment. It is not either/or here. As we were going out yesterday, we saw shrimp trawlers out there with supply boats. And the beautiful thing is, right here at this port, we've seen firsthand how you are dedicated to reclaiming fragile wetlands. At the same time, you are supporting our nation's energy needs, you are playing a very strong role in protecting and restoring our environment.

Now, I could talk to you all morning. You are not here to hear from me, we are here to hear from you. I want to thank our witnesses for driving, flying, coming down here. I want to thank our local witnesses for hosting us, allowing us to come visit your parish. Thank you for allowing the Committee to come and learn. And I especially want to thank our Chairman for taking time out of his busy schedule to come here and spend a great amount of time. With that, I will yield back.

[The prepared statement of Mr. Jindal follows:]

**Statement of The Honorable Bobby Jindal, a Representative in Congress
from the State of Louisiana**

I want to first thank Chairman Gibbons and his staff for conducting this hearing on the many benefits of the oil and gas industry and welcome them to Louisiana. It is one thing to hear of the benefits in Washington, but field hearings like these give members and staff an opportunity to see firsthand the successes and effects the industry has on the port area, state and country.

As we will hear shortly, the oil and gas exploration on the Outer continental shelf is vital to Louisiana as well as our nation. Roughly twenty percent of our country's oil and gas comes through Port Fourchon. Production on the OCS directly results in 21,000 jobs and supporting industries employ an additional 55,000.

As we attempt to reduce our dependence on foreign sources of energy and put a stop to rising prices at the pump, it is imperative that we look to the Gulf of Mexico to provide us with these valuable resources. It is estimated that 59% of the undiscovered oil and natural gas is located on the Outer Continental Shelf. However, the moratorium only allows for a little over half of the Gulf OCS to be explored. Louisiana has seen firsthand the benefits of opening the OCS up to safe and efficient exploration and production, and I look forward to hearing the testimony today that will elaborate on that point.

Obviously, the primary benefit the 4,000 production platforms provide is the energy sources they are producing. However, these marvels of modern engineering also provide new habitat for marine species and, by acting as an artificial reef, protection for our coast.

While the oil and gas industry in our state is producing necessary energy for our country, our coast and wetland areas are unfortunately being lost at a remarkable rate, approximately one football field per hour. I was pleased to see the recently passed energy bill include a provision that will provide Louisiana with \$540 million to help battle coastal erosion. Unfortunately, that program only lasts through 2010 and we need to continue to fight for long term assistance.

To that end, I am grateful for the House Resources committee's and subcommittee's support for a provision that I authored and was included in the House version of the Energy bill that would have utilized the economic resources provided by the oil and gas industry to assist Louisiana and other coastal states yearly with billions of dollars to work towards projects that deal with coastal erosion and hurricane protection. The House version would bring \$350 million to the state in the short term and more than \$1 billion a year after 10 years.

In order to continue to produce the oil and gas in our state that is necessary for our country, we need to preserve our coast and consider the environmental concerns that inevitable come with energy exploration and production. I look forward to working with my colleagues in Congress, as well as individuals such as those who are testifying today, to see that Louisiana continues to provide the energy needed to keep our country running, while at the same time enhancing efforts to save our precious coast and wetlands.

Again I want to thank all of you coming today and look forward to hearing your testimony.

Mr. GIBBONS. Thank you, Mr. Jindal.

Let me, before I turn to a representative from Mr. Melancon's office, recognize who I should have recognized very early on. That was the wonderful young Cub Scouts from Pack 333 and their Cub Master, Leo Bourg, Assistant Cub Master Nathan Eymard—if I get your name wrong, it's because I took French in high school and probably forgot—Assistant Cub Master Aaron Guidry, and the scouts themselves, Brody Eymard, Bryant Eymard, Joseph Bourg, Alex Vedros, Jovan Fuselier and Max Guidry. I think we all owe them a round of applause.

Thank you.

Mr. JINDAL. Your pronunciations reminded me of one other thing I wanted to point out to the audience. We made sure that the Chairman had several very good Louisiana seafood meals, and the highlight of many of these meals were the oysters prepared every which way we could possibly think of. The point being, to show him and just to remind the Committee that oysters are not endangered in Louisiana, despite the problems we're facing on the Gulf Coast. They may be endangered after all the oysters we ate this week, but I have a bill in front of the Committee to make sure that whatever Maryland does, if they want to declare their oysters endangered, that does not devastate our industry down here.

So I want to thank you for agreeing to partake and taste all our oysters.

Mr. GIBBONS. It reminded me of how many times I want to come back.

Thank you very much. I have to admit that I did learn a new French phrase, "Laissez les bon temps roulet," during that whole evening affair, which I think was great.

I would like to turn now to the Chief of Staff for Charlie Melancon, who is unfortunately recovering from an appendectomy and couldn't be here for this trip. He wanted to be here. We are going to ask that his chief of staff, Casey O'Shea, give his remarks.

Casey, welcome. The floor is yours.

Mr. O'SHEA. Thank you, Mr. Chairman.

On behalf of Congressman Melancon, I would like to thank all of the witnesses and all the elected officials and folks who worked so hard at Port Fourchon this morning for being here. With the Chairman's indulgence, I would like to read a statement into the record.

"As the only Cajun in Congress, I wish I could be with you in person this morning to welcome you to the Third District, the heart of Cajun Country. As you may already know, I recently underwent a routine, though unexpected, medical procedure and am unable to join you.

"Chairman Gibbons, thank you for your leadership on energy issues and thank you for allowing my testimony to be read into the record today. I would also like to present you a copy of *Bayou Farewell: The Rich Life and Tragic Death of Louisiana's Cajun Coast*, by Mike Tidwell, which will further underscore points in my testimony about the importance of Louisiana's coast and America's wetlands.

"Congressman Jindal, I appreciate your interest and steadfast support of Port Fourchon and the LOOP. Ted, your work is tireless and sometimes thankless. I want you to know how much the people appreciate what you do to keep Louisiana's only port on the Gulf of Mexico up and running.

"Mr. Chairman, Louisiana's delegation's work on behalf of Port Fourchon and the LOOP has been bipartisan and enormously fruitful. In the Transportation and Reauthorization Bill, we secured \$60 million for improvements of La. 1, including the upgrade of the Leesville Bridge to Port Fourchon. The bridge is the weakest and most critical link in the La. 1 system, and its improvement is a key part of the ongoing La. 1 project.

"I also included language in the worded bill that extends authorization for the dredging of Port Fourchon by 6/10ths of a mile to encompass new marine terminals that were recently built. The bill also corrects a senate error that would have mistakenly had the effect of deauthorizing the project by deauthorizing Bayou Lafourche.

"The Energy Policy Act of 2005 included \$540 million over the course of four years, beginning in Fiscal Year '07, for coastal restoration efforts here in Louisiana. Lafourche Parish, where we are today, will receive \$9.76 million. Neighboring Terrebonne and Jefferson Parishes will receive \$30 million over four years, part of the nearly \$117 million in direct assistance to the parishes of the Third Congressional District.

"The money secured through this Congress not only goes to protecting America's wetlands, but by protecting those natural barriers against hurricanes and flooding, and will also help secure our energy infrastructure at Port Fourchon.

"Also in the new energy bill, I demanded new tax credits that would give incentives for energy production. We achieved \$11.5 billion in tax incentives over 11 years. \$2.6 billion of that total includes direct incentives to the oil and gas industry, seven-year depreciation for natural gas gathering lines, refinery expensing provision and a small refiner definition for refiner depletion.

"Additionally, I was able to include language which allows a revenue-sharing mechanism to provide incentives for future alternative energy projects so that South Louisiana can remain in the forefront as new sources of energy are developed along our coastline. Our local oil and gas industry is constantly looking for new ways to compete in the global marketplace, and that's why I am proud to announce today the South Louisiana Economic Council's Caspian Sea Initiative. I have been working closely with the Kazakhstan government to develop a framework for our companies to access this huge oil and gas market. We will soon be releasing more information on how our companies will be able to take advantage of these new opportunities.

"Finally, I would like to announce my plans for a South Louisiana Energy Summit. I will be inviting representatives from across South Louisiana's energy industry to participate in a day-long summit to discuss the impact of the Energy Policy Act of 2005 with representatives of the relevant Federal agencies. Through these efforts and others, I will continue to do my part in Washington and work with those of you who service, support, plan and execute the operations of Port Fourchon and the LOOP. I know from my years in economic development that the energy industry is a key economic driver in the Third District. It's a simple equation: Energy equals jobs.

"I'm happy to continue that work as South Louisiana's Congressman and look forward to bringing more Federal attention to the LOOP and Port Fourchon. I will continue the process of educating the American public about the importance of the LOOP and Port Fourchon and to providing affordable energy to the nation. At a time when oil prices are over \$60 a barrel, it is more important than ever to increase domestic production. The Port's prospects look good in this market environment.

"Mr. Chairman, Congressman Jindal, I thank you again for coming to see what Cajun ingenuity has built at Port Fourchon, and welcome to the Third District."

[The prepared statement of Mr. Melancon follows:]

Statement of The Honorable Charlie Melancon, a Representative in Congress from the State of Louisiana

As the only Cajun in Congress, I wish I could be with you in person this morning to welcome you to the 3rd District, the heart of Cajun country. As you may already know, I recently underwent a routine, though unexpected, medical procedure and am unable to join you. Chairman Gibbons, thank you for your leadership on energy issues and thank you for allowing my testimony to be read into the record today. I'd also like to present to you a copy of Bayou Farewell: The Rich Life and Tragic Death of Louisiana's Cajun Coast by Mike Tidwell which will further underscore points in my testimony about the importance of Louisiana's coast.

Congressman Jindal, I appreciate your interest and steadfast support of Port Fourchon and the LOOP.

Ted (Falgout), your work is tireless and sometimes thank less, I want you to know how much the people appreciate what you do to keep Louisiana's only port on the Gulf of Mexico up and running.

Mr. Chairman, the Louisiana delegation's work on behalf of Port Fourchon and the LOOP shows that in spite of the rank partisanship that seems to delay and divide us at every turn in Washington, our delegation can still throw off our party labels and work together to get things done for the people of our state and nation.

It is a good sign to all of us that the Committee has chosen Port Fourchon for this hearing. I thank the Chairman for bringing national attention to the critical nature of the facilities based here. Indeed for the first time in a long time there is a lot of good news coming from Washington. I'd like to share some of that good news with you and give you a glimpse of my vision for the future of the energy industry in South Louisiana.

So here's the good news:

Through the Transportation Reauthorization bill, we have secured \$60 million dollars in improvements for LA-1 including an upgrade for the Leeville Bridge to Port Fourchon. The bridge is the weakest and most critical link in the LA-1 system and its improvement is a key part of the ongoing LA-1 project. The small two-lane draw bridge currently in place is the only evacuation route for thousands of Lafourche Parish residents and energy workers, and the entry point for 18% of the nation's energy supply. I would like to especially thank Roy Francis and the LA-1 coalition for their leadership on this important project.

I have also included language in the WRDA bill that extends authorization for Port Fourchon by 0.6 mile. This will allow the Corps to maintain the Port's channel for an additional length that encompasses new marine terminals that were recently

built. The bill also corrects a Senate error that would have mistakenly had the effect of de-authorizing the Port Fourchon project (by de-authorizing Bayou Lafourche).

I hope that we use this hearing as an opportunity to educate the rest of the nation about Port Fourchon and the LOOP's role in satisfying our demand for affordable energy. But with every opportunity comes a challenge. The challenges that now confront us are serious and systemic. Our coast is vanishing at the rate of a football field every 30 minutes. The half billion dollars secured for coastal restoration by the bipartisan work of our delegation through the energy bill represent an historic commitment on the part of the federal government and is a good down payment. But coastal erosion is a \$14 billion dollar problem that is unrelenting. It will take a serious and concerted effort for many years to come to bring back to Louisiana all the resources it deserves to rebuild her coast after decades of fueling the economic engine of our country.

The Energy Policy Act of 2005 included \$540 million over the course of four years (beginning in Fiscal Year '07) for coastal restoration efforts. 35% of that money will be divided between coastal parishes. The other 65% of the \$540 million goes to the state for its efforts in coastal restoration. The good news there is that much of that money will likely be spent in South East Louisiana because that is where the most immediate need is. Local government has some latitude with the coastal money, but they must have their plans approved by the state and the Department of Interior. Lafourche Parish where we are today will receive more than \$9.76 million. Neighboring Terrebonne Parish will receive \$12.8 million over four years. The money secured this Congress not only goes to protect America's Wetlands, but by protecting those natural barriers against hurricanes and flooding it will also help secure our energy infrastructure at Port Fourchon.

My work for the Port started in the 1970's when I was the head of the South Central Regional Planning and Development Commission. At that time there wasn't much more than a water line and an old shell road where the Edison Chouest facility now stands. Mr. Chairman, in the 70s we realized that we were in a unique position to create jobs, jobs, jobs, for the people of South Louisiana by turning that water line and old shell road into what you see today. The work was hard and people like the Chouests who undertook the effort knew that there was risk involved, but they did it anyway and their investment has become the focal point of deepwater oil and gas activities that services 75 percent of Gulf of Mexico deepwater production.

I am happy to continue that work as South Louisiana's Congressman. I look forward to bringing more federal attention to the LOOP and Port Fourchon. I will continue the process of educating the American public about the importance of the LOOP and Port Fourchon to sustaining affordable energy prices to the rest of the nation. At a time when oil prices are over \$60 a barrel it is more important than ever to increase domestic production. The Port's prospects look good in this market environment. In the recently passed energy bill, I demanded new tax credits that would incentive-ize energy production. We got \$11.5 billion in net tax incentives over 11 years. \$2.6 billion of that total includes direct incentives to the oil and gas industry: seven year depreciation for natural gas gathering lines, a refinery expensing provision, and a small refiner definition for refiner depletion. It was a promise I made on my campaign and I am excited to say that we kept that promise in my first 6 months in office. The Minerals Management Service projects that Port Fourchon will service 44 percent of pending future deepwater plans. I intend to do everything in my power as your Congressman to continue to increase domestic production in the Gulf of Mexico.

In the new global economy, we must maintain our competitive edge. I am always looking for new markets to expand our home-grown oil and gas industry. Those small and medium size companies need to compete in a global marketplace. That is why I am proud to announce today the South Louisiana Economic Council's Caspian Sea Initiative. I have been working closely with the Kazakhstan government to develop a framework for our companies to access this huge oil and gas market. During a recent mission to Kazakhstan, SLEC representatives met with the Kazakhstan Minister of Energy and Resources and we now have his endorsement for this very important initiative. We will soon be releasing more information on how our companies will be able to take advantage of these new opportunities.

Finally, I would like to announce my plans for a South Louisiana Energy Summit. I will be inviting representatives from across South Louisiana's energy industry to participate in a day long summit to discuss the impact of the Energy Policy Act of 2005 with representatives of the relevant federal agencies.

Through these efforts and others I will continue to do my part in Washington and work with those of you who service, support, plan and execute the operations of Port Fourchon and the LOOP. I know from my years in economic development that the

energy industry is a key economic driver in the 3rd District. It is a simple equation: energy = jobs.

Mr. Chairman, thank you again for coming to see what Cajun ingenuity has built at Port Fourchon, and welcome to the 3rd District.

Mr. GIBBONS. Thank you very much. Appreciate that.

Ladies and gentlemen, for those of you who may not know, the people sitting on either side of Mr. Jindal and I are either Committee staff or personal staff. We bring our staff with us. They do the hard work: Making sure that we stay on time, stay on course, and making sure that the information that we gather here today gets back into the congressional record. As you see them here, they will be taking notes and making sure that we run on time.

What I would like to do now is introduce our first panel that we have today.

Mr. GIBBONS. We have Tom Readinger, Associate Director, Offshore Minerals Management Service; we have Scott Angelle, Secretary, Louisiana Department of Natural Resources; we have Charlotte Randolph from Lafourche Parish, President of Lafourche Parish; Ted Falgout—I'm mispronouncing that——

Mr. FALGOUT. I've been called a lot worse.

Mr. GIBBONS.—Executive Director of the Greater Lafourche Port Commission; Mr. Mark Davis, here as the Executive Director of the Coalition to Restore Coastal Louisiana.

Ladies and gentlemen, welcome to the Committee. We look forward to your testimony. We will begin, just go from left to right, starting with Mr. Readinger.

Tom, the floor is yours.

By the way, we have asked them all to kind of limit their statements to five minutes. We can have great flexibility, since I'm in charge, and nobody is going to care. But your written statement will be submitted for the complete record. If you want to summarize and talk extemporaneously, we encourage that as well.

Thank you. Tom, the floor is yours. We look forward to hearing from you.

**STATEMENT OF TOM READINGER, ASSOCIATE DIRECTOR,
OFFSHORE MINERALS MANAGEMENT SERVICE**

Mr. READINGER. Thank you, Mr. Chairman. On behalf of the MMS and the United States Department of Interior, I certainly appreciate the opportunity to appear here today to provide the Committee information concerning the vital role of the Federal offshore lands for meeting the nation's energy needs. As you said, Mr. Chairman, I have submitted written testimony, and right now I will summarize and highlight some key points concerning—especially at your request, that I address the benefits that the Nation obtains and derives from the Federal outer Continental Shelf.

The principal benefits can be divided in three categories. First, the energy benefits that are generated from—really, as a value to the Nation to sustain our quality of life.

Second, the economic benefits, which derives to both consumers and producers, are generated in the private sector of our economy.

Third, environmental benefits attributable to a program, which I would like to talk about, that compares favorably compared to other supply options the country faces. I will also touch on, very

briefly, the secondary information benefits derived from the conduct of the program which help inform the public policy debate.

As to the energy benefits, the Federal OCS is a major supplier of oil and gas for the domestic market, contributing more oil and natural gas for U.S. consumption than any single state or country in the world. A steward of these resources on 1.76 billion acres of the nation's OCS, MMS has over the past 30 years managed production, which cumulatively has totaled 15 billion barrels of oil and more than 155 trillion cubic feet of natural gas. To give you some point of reference, that is enough oil to supply the entire nation's needs for three full years and enough natural gas for seven years.

Today, MMS administers more than 8,400 leases and oversees 4,000 facilities on the OCS, accounting for 30 percent of the nation's oil production and 21 percent of natural gas production. Within the next five years, offshore production will likely increase that share and provide more than 40 percent of our domestic production, 26 percent for gas, owing primarily to deepwater Gulf of Mexico discoveries supported right here by the facilities in Port Fourchon.

The deepwater activity in the Gulf/production from sites—we use to measure a thousand feet of water or greater—has been a major United States economic and energy success story. There are now about 140 deepwater discoveries, of which more than 90 are producing. This has helped increase total offshore production from 980,000 barrels per day in 1995 to 1.7 million barrels per day in 2003.

And the same ingenuity that you witnessed yesterday, Congressman, in deepwater, is also evidenced in the shallow water deep-gas Shelf drilling, where operators are targeting deep horizons for natural gas reservoirs, drilling to 15,000, 20,000 and even up to 35,000 feet deep through extremely high temperature and pressure conditions.

As is the case for deepwater, the Administration has provided economic incentives to promote investment, encourage it, in these high-risk, high-cost ventures. The new Energy Policy Act of 2005 codifies and extends such incentives. The new Energy Act also directs MMS to manage the development of nonconventional renewable energy resources on the OCS, and we intend to apply and adapt the same guiding principles we use in our oil and gas program, along with Secretary Norton's directives to consult with local and state officials and other affected parties to make the balanced decisions we need to efficiently manage these resources.

Turning to economic benefits, MMS has documented program contributions to Federal revenues, private sector producer and consumer benefits; and, three, related direct and indirect employment. OCS lease sales and production have generated more than \$156 billion in Federal revenues from bonus bids, rentals and royalties.

Annual revenues range from \$4 to \$10 billion each year and are likely to increase with high energy prices and increase production from deepwater discoveries in the Gulf. This amount of money doesn't count the tax revenues associated with Federal production which also provides the Federal treasury a significant—billions of dollars, I'm sure.

MMS has documented substantial private sector benefits. They are difficult to measure, any economist will tell you, but we do have some models that have generated estimates that private sector value from the OCS could range from two to five times the Federal revenue apportioned. If you are interested in that, we have documented that in each of our programs supporting documentation that we put out. For the current program in April of 2002, we issued a report that provides by planning area some of this value that is generated.

The OCS oil and gas industry directs employment that accounts for 42,000 workers, mostly in the Gulf of Mexico area, concerning direct employment; but indirectly, if you count what suppliers provide to support the industry, we estimate that there are another 90,000 or more jobs throughout the country.

Another indirect economic benefit relates to advancements in technology that are attributable to offshore ventures. Over the last 30 years, technological advances in offshore have made production safer, more environmentally sound and more economically efficient. In the area of exploration, technological advances help companies better identify prospects, allow for more effective well placement, improve the development of resources, reduce the number of dry holes and cut exploration time.

Regarding environmental benefits, MMS environmental analyses and studies help provide decisionmakers a basis to balance environmental impacts that may occur. Yes, our studies do show that impacts may well incur, as in all industrial activities; however, the record is also very clear that most of the potential impacts can be mitigated, and there is clear evidence that the impacts are decreasing as technology improves.

Over the past three decades, MMS has documented a continuous improvement in the OCS environmental and safety records. The oil spill rate has declined each decade resulting in a 67 percent decrease over this 30-year period. Offshore production today is proving to be, indeed, one of the safest ways to supply our nation's energy needs.

In fact, concerning the discussion that you often hear about how the argument is phrased, you often hear how alternatives to domestic production, such as conservation and efficiency, are environmentally preferable. However, we believe that framing the discussion in those terms can really present an essentially false choice comparison.

For example, MMS analysis for the current five-year program reveals that, indeed, adoption of the no-action alternative, not producing the OCS, is more likely to result in increased importation of oil by tanker than conservation.

In economic terms, importing oil is the most likely supply substitution alternative to not pursuing domestic production of hydrocarbons. If the responsible development of the OCS alternative is environmentally preferable, it would logically follow that environmental benefits would result from pursuing this better alternative.

OK. But what does the record show in this comparison? Well, it shows that the OCS natural gas production ranks favorably in comparison to, say, imported oil, from an environmental standpoint.

You don't have any oil spill risks, natural gas is good for meeting clean air standards and so on.

For oil production, the record reveals that the risk of an oil spill from the OCS oil and gas has decreased over the last 30 years, and is about six or seven times less than the risk posed by tankering imported oil. While the trend for both, tankering and the OCS, has declined, looking at the period from 1985 to 2001, for every billion barrels of oil transported, worldwide tankers filed about 53,000 barrels; whereas, OCS production lost about 8,000 barrels.

Of note, according to a recent national academy report, natural seeps of oil from underground accumulations emit 150 times more oil into the North American ocean environment as compared to OCS.

Policymakers have also realized substantial information benefits owing to the conduct of the program. Environmental and technological issues raised by state and local governments, environmental groups, industry, and others, have helped shape our research agenda. Much of MMS's research is accomplished, indeed, through cooperative funding from universities, interagency agreements and joint funding with industry.

Owing to this, the environmental studies program is responsible for numerous scientific discoveries, such as sperm whales in the Gulf of Mexico; deepwater chemosynthetic sea communities; the documentation of artificial reef communities that provide habitat for unique biological communities. They are also responsible for the discovery of deepwater coral communities, never before discovered until very recently out in the deepwater and intertidal biological communities offshore California.

In those small ways, the conduct of the OCS program has increased the science base for our nation's OCS resources.

In conclusion, the environmental record of the OCS program is outstanding and improving. No significant platform spill has occurred in the last 35 years. Over the last 34 years, looking at the California situation, over 1 billion barrels of oil were produced. Over that time, on average, about 33 barrels of oil were spilled each year. In comparison, over the same time period, natural seeps release 140,000 barrels annually offshore of southern California.

Natural gas production offshore represents one of the most environmentally sound energy investments this country could make. A decision to not produce the OCS also carries with it environmental consequences. Mostly, it will mean more imported oil and LNG to meet our nation's needs. Importing these resources poses risks to the worldwide environment, as well as financial and security costs.

Finally, Mr. Chairman, you might also ask, will these benefits continue? There are estimates that the OCS holds about 60 percent of the undiscovered U.S. reserves of oil and 40 percent of natural gas. The OCS also may hold a tremendous potential for more natural gas in the form of these methane hydrates that industry and government are studying.

However, our estimates are highly uncertain in this regard. Estimates for conventional resources are based on old data and old technology. There has been no seismic exploration in many areas for over 25 years and no exploration drilling.

The new Energy Act calls for the MMS to conduct an inventory of OCS potential, but this review will be limited by these constraints. We will, however, review and consider alternative geologic theories to provide policymakers some measures of the bounds of this potential.

As part of all this analysis, we will consider the significant exploration results from worldwide offshore drilling, for example, offshore Canada and Africa, which could provide useful geological analogs for some of our frontier areas. But regarding this longer-term view, I must also note that there are long lead times for accessing frontier areas of the OCS. Lease sales cannot be held unless they are on a five-year program. Once the sale is held, it can take five to ten years for drilling to commence. Commencement of production can take another five years after discovery.

In a very real sense, Mr. Chairman, regarding OCS policy decisions, if we wish to continue with these OCS benefits that we are seeing, the future is now. In this time of uncertainty, the MMS stands ready to respond to apply our science and technology and management principals to benefit the nation.

Mr. Chairman, this concludes my statement. Please allow me on behalf of MMS and the Department to express our sincere appreciation for the continued support and interest of this Committee for the Federal offshore program.

[The prepared statement of Mr. Readinger follows:]

Statement of Thomas A. Readinger, Associate Director, Offshore Minerals Management, Minerals Management Service, U.S. Department of the Interior

Mr. Chairman and Members of the Committee, my name is Thomas Readinger, Associate Director, Offshore Minerals Management. I appreciate the opportunity to appear here today to highlight for you the significant and vital role of Federal offshore lands for meeting our Nation's energy needs.

In response to your request, I will address the benefits the nation obtains from the federal Outer Continental Shelf (OCS) program. The major program benefits can be divided into three general categories: (1) energy benefits, (2) economic benefits, and (3) environmental benefits. I will also touch upon the secondary information benefits derived from the conduct of the program which help inform the public policy debate.

Federal Offshore Energy Program—General Context

As this committee well knows, energy use sustains our economy and our quality of life. This is why high energy prices and increasing dependence on foreign energy supplies raise important national policy issues.

The President's 2001 National Energy Policy (NEP) report laid out a comprehensive, long-term energy strategy for securing America's energy future. This strategy derived from the conclusion that the issue was complex, long in the making, and without a short-term solution. The recommendations recognize that, to reduce our rising dependence on foreign energy supplies, we must increase domestic production, while also pursuing energy conservation and the use of alternative and renewable energy sources. Achieving the goal of secure, affordable and environmentally sound energy supply would require diligent, concerted efforts on many fronts for both the supply and demand sides of the energy equation.

Good stewardship of resources dictates that we use energy efficiently and conserve resources. Fossil fuel development is only a part of the solution to our Nation's energy challenge.

The recently enacted Energy Policy Act of 2005 recognizes the need for diversifying our energy sources and directs specific government actions intended to move our nation toward a more secure future. Important provisions of the new law will define the future for our OCS energy contribution.

The Outer Continental Shelf Lands Act directs the Secretary of the Interior to make resources available to meet the nation's energy needs. The accompanying Congressional Declaration of Policy states, "The OCS is a vital national resource reserve

held by the Federal Government for the public, which should be made available for expeditious and orderly development.” The Administration has directed the Minerals Management Service (MMS) to meet this charge through specific policy initiatives provided in the President’s National Energy Policy plan. This direction is all the more critical in the face of increasing strains on worldwide energy supply. Congress and the President have now enacted energy legislation that will not only make conventional energy sources more available and economically attractive, but also allow for the orderly development of non-conventional and renewable resources on the Outer Continental Shelf.

As the Department of the Interior’s offshore resource management agency, the MMS has a focused and well established ocean mandate—to balance the benefits derived from exploration and development of oil, gas and marine minerals resources with environmental protection and safety impacts.

Current Energy Picture

Oil is vital to the American economy. Currently, oil supplies more than 40 percent of our total energy demand and more than 99 percent of the fuel we use in our cars and trucks. With crude oil prices currently around \$60 per barrel, consumers are bearing the cost. Gasoline prices in 2005 are projected to remain high, at an expected average of \$2.28 per gallon for the April to September summer season, 38 cents above last summer. High world oil demand will likely continue to support crude oil prices and increase competition for gasoline imports. In spite of these high prices, U.S. petroleum demand is projected to average 20.9 million barrels per day in 2005, up 1.7 percent from 2004.

According to the Energy Information Administration, over the next 20 years, Americans’ demand for energy is expected to grow at an annual rate of 1.4 percent. This growth projection incorporates continued gains in energy efficiency and movement away from energy-intensive manufacturing to service industries. Despite a continuing emphasis on expanding renewable sources of energy, petroleum products and natural gas are projected to account for almost 65 percent of domestic energy consumption in 2025, a slightly larger share than today.

U.S. natural gas consumption is expected to grow from 22 trillion cubic feet (tcf) in 2003 to almost 31 tcf in 2025. Domestic production, however, is expected to grow only from 19.1 tcf to 21.8 tcf, meeting only about 30 percent of demand growth. In the past, any difference between the growth in demand and the growth in domestic production was predominantly met by imports of gas from Canada. However, Canada’s National Energy Board has concluded that their future production will not support increased U.S. imports. Most additional supplies will need to come from Alaskan natural gas and from imports of liquefied natural gas (LNG).

Predictably, markets are responding to this outlook with higher energy prices, and an increased demand for OCS resources. This is apparent from recent interest in lease sales and an increasing pace of exploration and development. The mandates of OCSLA, the NEP, and the Energy Policy Act direct MMS to make available energy resources to contribute to the nation’s economic well-being and energy security.

Energy Benefits

The Federal OCS is a major supplier of oil and natural gas for the domestic market, contributing more oil and natural gas for U.S. consumption than any single state or country in the world. As steward of the mineral resources on the 1.76 billion acres of the Nation’s OCS, MMS has to date managed OCS production that cumulatively totals 15 billion barrels of oil and more than 155 trillion cubic feet of natural gas for U.S. consumption.

Today, MMS administers more than 8,400 leases and oversees over 4,000 facilities on the OCS, which account for about 30 percent of the Nation’s domestic oil production and 21 percent of our domestic natural gas production. Within the next 5 years, offshore production will likely account for more than 40 percent of oil and 26 percent of U.S. natural gas production, owing primarily to deep water Gulf of Mexico discoveries.

As the federal OCS mineral resource management agency, MMS has worked diligently for over 20 years to create an efficient framework for OCS mineral resource development. Guiding principles include: conservation of resources; assurance of a fair and equitable return to the public for rights conveyed; protection of the human, marine, and coastal environments; involvement of interested and affected parties in planning and decision-making; and minimization of conflicts between mineral activities and other uses of the OCS. MMS also has over two decades of experience working with coastal states regarding coastal zone management issues. The U.S. Commission on Ocean Policy in its report, “An Ocean Blueprint for the 21st Century,”

stated, "the scope and comprehensiveness of the OCS oil and gas program can be a model for the management of a wide variety of offshore activities." We must now meet the challenge of new responsibility provided in the Energy Policy Act, to manage the development of non-conventional and renewable energy resources on the Outer Continental Shelf. We intend to apply, and adapt, these same guiding principles, along with Secretary Norton's directives for consultation with affected parties, to manage these resources in the public's interest.

MMS has implemented a number of National Energy Policy directives to increase domestic energy supplies and enhance national energy security by ensuring continued access to offshore Federal lands for domestic energy development, and by expediting permits and other federal actions necessary for energy-related project approvals.

Energy Benefits from Gulf of Mexico Deep Water and Deep Gas Horizons

The U.S. is now in its tenth year of sustained expansion of domestic oil and gas development in the deep water area of the Gulf of Mexico (Gulf). Deep water oil production has risen 386 percent and deep water gas production is up 407 percent since 1996. Deep water means that from water surface to where a drill bit first touches mud is about 1,000 feet.

In 2004, operators initiated production on 14 new deep water projects and announced another 12 new deep water discoveries. Anticipated production from fields with names such as Thunder Horse, Atlantis, and Mad Dog, and will dramatically increase OCS production in 2005 and 2006. We expect that it will be several years before deep water areas of the Gulf reach their full potential. The deep water activity in the Gulf has been a major U.S. economic and energy success story.

There are now about 140 deep water discoveries of which more than 90 are producing. This has helped to increase total offshore production from 980,000 barrels per day in 1995 to 1.7 million barrels per day in 2003. Additional deep water rigs are being built or moved to the Gulf from other parts of the world. The number of deep water exploration wells drilled in 2004 increased 27 percent compared to 2003.

The same industry ingenuity witnessed in deep water is also evidenced in shallow water shelf drilling operations where operators are targeting deep horizon natural gas reservoirs that require drilling 15,000, 20,000 and in some instances 35,000 feet deep through extremely high temperature and pressure conditions. Currently, operators are drilling the Blackbeard project to more than 35,000 feet—6 miles. This well will take almost a year to drill and there is no guarantee of success.

Energy Benefits—Hydrates

The Nation's energy potential may not rest entirely on conventional hydrocarbon resources. Industry and government scientists are now studying the possibility that a unique and puzzling frozen "ice" crystal may hold the key to future energy resources. Methane hydrates are naturally occurring ice-like solids in which compressed gas molecules are trapped. Hydrates are found in locations with high pressure and low temperature. Over 98 percent of natural gas hydrate resources are estimated to occur in offshore ocean sediments. Discovering a method to locate, produce and transport the gas from formations to the market is the key to unlocking their potential energy benefits. Researchers drilled two wells in the Gulf earlier this year in hopes of advancing our understanding of this potential energy resource.

Energy Benefits—Estimates of Remaining OCS Resources

There has been a steady upward trend in the portion of domestic energy production from public lands. Overall, Interior-managed resources today account for about 32 percent of the nation's total energy production, up from 13 percent in 1970. OCS contribution is projected to grow significantly over the next few years as the OCS is believed to hold about 60 percent and 41 percent of the Nation's remaining undiscovered oil and gas resources, respectively. It also may hold a potential future supply of methane hydrates that could, if it proves safe to develop, supply another important source of natural gas for domestic consumption.

MMS conducts a comprehensive national assessment of the undiscovered oil and gas resources on the OCS every 5 years. The main objective of these assessments is to forecast the oil and natural gas endowment of the U.S. OCS for planning purposes, but there is much uncertainty in the estimates due to a lack of data in many areas, especially in those OCS areas which have been off limits to exploration and development for many years.

The Energy Policy Act requires us to conduct analyses and inventory the oil and gas resources from all OCS areas within 6 months and every 5 years thereafter. The MMS has begun developing this inventory by reanalyzing existing seismic data with new analysis techniques and in light of new drilling information from Canada and Mexico.

Energy Benefits—Alternative Uses of the OCS

The oceans may also hold the key to realizing significant potential new energy sources to support America's growing energy needs—for example: wind, wave, and solar energy. New authority in the Energy Policy Act now gives us the ability to manage alternative energy resources with the same balanced view toward meeting our nation's needs for energy; safe working conditions; and a clean, healthy environment. Placing the management of these various ocean energy resources in one agency provides MMS an opportunity to balance the multiple interests in development of our nation's resources.

This new Energy Policy Act provision provides a structure for managing certain offshore activities that were never contemplated when previous statutes were enacted. It provides the basic tools for comprehensive management of energy-related activities on the OCS. These tools include the authority to grant rights to the seabed for energy-related projects, through competitive or non-competitive means; charge appropriate compensation for use of the seabed; ensure safety and environmental protection through regulation, inspection, and enforcement; and require financial surety to ensure any facilities are removed and the seabed restored at the end of project life. As it does for its other offshore activities, the Department will provide a focal point for a coordinated review and approval process involving all affected parties.

In addition, the Energy Policy Act now specifies that we can authorize energy or marine related uses of existing OCS facilities. Platforms built for oil and gas activities can now be used for other approved activities. There are proposals to convert platforms to a variety of uses, including aquaculture, scientific research, and LNG terminals. The oil and gas industry is also contemplating ancillary projects, such as staging areas and emergency medical facilities, to support ongoing activities in the deep water Gulf of Mexico.

Economic Benefits

The economic benefits associated with federal OCS energy development are substantial by any measure. MMS has documented economic contributions to (1) federal revenues, (2) producer and consumer benefits to the private sector, and (3) related direct and indirect employment.

OCS lease sales and production have generated more than \$156 billion in federal revenue from bonus bids, rentals, and royalty payments. Annual revenues range from \$4 to \$10 billion and are likely to increase with the higher energy prices and increased production from deep water discoveries in the Gulf. Tax revenues associated with federal production also provide significant contributions to federal revenues.

In addition, MMS has documented substantial private sector economic benefits as required under the OCSLA section 18 analysis for each 5-Year Program. Though difficult to measure, our economic models have generated estimates that reveal that private sector and consumer benefits can range from 2 to 5 times higher than the federal revenue benefits. In economic terms, these benefits include both supply-side producer surplus (the difference between product price and production costs) and demand-side consumer surplus (the difference between consumer willingness to pay and the product price).

The OCS oil and gas industry directly employs about 42,000 workers, mostly in the Gulf of Mexico area. Indirect employment by suppliers and other companies that support the industry is estimated to account for another 90,000 or more jobs throughout the country.

The billions of dollars MMS collects annually from energy companies for offshore and onshore oil and gas leasing and production constitute one of the largest sources of non-tax revenue to the Federal Government. OCS leasing and production provides the majority of oil and gas annual revenue collected by MMS—about 66 percent of the \$8 billion collected in FY 2004.

Economic incentives adopted as a result of the President's NEP promote discovery of new sources of energy for the Nation and stimulate domestic oil and natural gas production. For 2001-2005 OCS lease sales, we continued the royalty incentive program—first established by the Deep Water Royalty Relief Act of 1995—to promote continued interest in deepwater leases, and expanded the incentive program to promote development of new natural gas from deep horizons in the Gulf's shallow waters. A new regulation in January 2004 extended the deep gas incentive to existing leases, issued before the incentives were first provided in 2001, to promote additional deep drilling for natural gas on the shelf. MMS has also developed policies for extending lease terms to aid in planning wells to be drilled to sub-salt and ultra-deep prospects, accounting for the additional complexity and cost of planning and drilling such wells. MMS has also provided economic incentives for all Alaska OCS

lease sales to promote leasing interest and encourage oil and gas exploration development in this area of high cost and little infrastructure. The recently enacted Energy Policy Act formalizes and extends some of these incentives and gives us new opportunities to encourage companies to step into extremely challenging areas like offshore Alaska and in ultra-deep water depths (>2,000 meters). We are working now to develop the regulations to implement these additional incentives.

Economic Benefits—Technological Advances

In the last 30 years, technological advancements in the offshore oil and natural gas industry make production safer, more environmentally sound, and more economically efficient. In the area of exploration, technological advances help companies better identify prospects, allow for more effective well placement, improve the development of resources, reduce the number of dry holes, and cut exploration time.

Once production begins, advanced recovery techniques allow for increased production, recovering 50 percent more oil and 75 percent more gas from a well than was recovered 30 years ago. Improved reservoir management reduces the amount of water produced. Other improvements include better treatment of produced water, better air pollution control, more energy-efficient production, and reduced emissions of greenhouse gases.

Technology applied to reservoir management includes artificial lift, for increased production; downhole oil/water separation; and advanced data management. Advancements in materials engineering have led to the increased use of advanced composite materials for parts of structures and mooring systems. These materials are strong, lightweight, and able to withstand the offshore environment.

Offshore technologies today allow remote control of drilling operations from control rooms that are miles away; dynamic positioning of drill ships using multiple engines that are the size of the meeting room we are sitting in; floating production platforms; anchoring cables to hold facilities in place that are made of a combination of traditional steel and synthetic materials; pipe laying ships that can lay pipelines in thousands of feet of water. In fact, the recent Thunder Horse development required over one hundred technological advancements—things that had not been done before—to bring online the largest oil field discovered in the U.S. in the last 30 years.

Environmental Benefits—Safety and Accident Prevention

MMS environmental analyses and studies provide decision-makers a basis to balance potential environmental impacts or costs associated with OCS development with national energy and economic benefits. These documents reveal that impacts occur, as in all industrial activities. However, the record also is clear that most of the potential impacts can be mitigated and there is evidence that the impacts are decreasing as technology improves.

In general the MMS regulatory requirements and monitoring of operations are specific and stringent. For example, we require:

- specific training for offshore workers in well control and production safety systems;
- regular testing and maintenance of drilling, production, and pipeline safety systems;
- that submissions for approval of exploration and development/production plans include comprehensive environmental reports and oil spill contingency plans; and
- application of the best available and safest technology.

MMS also has a comprehensive accident investigation program to help prevent recurrence of similar incidents; and an effective and vigorous civil and criminal penalties program.

Over the past three decades, MMS has documented a continuous improvement in the OCS environmental and safety record. We have seen the oil-spill rate continue to drop each decade resulting in a 67 percent decrease over this 30 year period. Offshore production today is proving to be one of the safest ways to provide for our nation's oil and natural gas energy needs.

The MMS and the offshore oil and gas industry share the paramount goal of preventing offshore accidents. MMS has increased its inspection activities more than 60 percent since 1999; and thanks to technological advances and industry's commitment to safety, the number of Lost Workday Incidents is down 65 percent since 1996.

MMS has a permanent workforce inspecting offshore facilities for compliance with safety regulations and has particular expertise in structural engineering and environmental mitigation. The MMS conducts almost 25,000 inspections of offshore facilities each year. MMS recently began an interagency partnership with the U.S. Coast Guard, in which MMS conducts inspections on behalf of that agency. The

MMS also partners with Federal, state, and local agencies in standardizing oil spill plan requirements, response standards and in conducting regular drills.

MMS continues to investigate technology, practices, and procedures that might further reduce risks to offshore workers and the environment. In that regard, our offshore program has benefited tremendously from our international research partnerships. For the past 25 years, we have worked with international agencies on offshore safety research projects—one quarter of our 529 safety and pollution prevention projects have involved international partners or contractors. Participating countries include Canada, Norway, the United Kingdom, Sweden, Germany, France, Italy, Mexico, Brazil, Argentina, the Netherlands, Kazakhstan, Japan, Russia, Australia, and South Korea. This cooperation enables us to leverage our research funds and gain access to the world's leading technical specialists.

Environmental Benefits—Supply Substitution

The discussion concerning environmental risks from oil and gas development is often framed as a false choice between increased energy conservation/efficiency and increased development of this resource. But as the President's National Energy Policy outlines, a balanced approach relies on both greater energy efficiency and wise stewardship and usage of our nation's energy resources. We recognize conservation alone will not make up for our growing demand for oil and gas. MMS analysis reveals that adoption of the "no action" alternative—no development of OCS resources—is more likely to result in increased oil importation than conservation. Environmentally sound use of OCS resources will allow our country to meet this need.

What then does the environmental record show concerning how the OCS compares to other supply alternatives? From an environmental standpoint, OCS natural gas production ranks favorably in comparison, say, to imported oil, which increases tanker traffic into U.S. waters and often comes from countries with less stringent environmental requirements. As to OCS oil production, the record reveals that the risk of an oil spill has decreased over each of the past three decades and is about 6 or 7 times less than the risk posed by tankered imports. Although the trend is improving for both sources, based upon the data for the period 1985-2001, for every billion barrels transported, worldwide tankers spill about 53,000 barrels, whereas OCS production loses about 8,000 barrels for every billion barrels produced. For the most recent decade the OCS rate was down to 6,500 per billion barrels. Of note, according to a recent National Academy report, natural seeps of oil from underground accumulations emit 150 times more oil into the North American ocean environment than U.S. OCS production.

Information Benefits—Science Based Decision-Making

MMS is committed to rigorous scientific research to ensure that decisions are based on the best available information. Environmental and technological issues that have been raised by state and local governments, other federal agencies, environmental groups, and industry, help shape our research agenda. Much of MMS research is accomplished through co-operative funding with universities, inter-agency agreements, and joint funding with industry.

MMS conducts applied research specific to issues associated with OCS mineral leasing and development through its Environmental Studies Program, its Oil Spill Research Program, and its Technology Assessment and Research Program.

This is a particularly exciting time for ocean science and resource management, and the MMS is in a unique position to participate with other agencies as a developer, implementer, and user of our Nation's ocean and coastal science data. The U.S. Commission on Ocean Policy recommended the development of an Integrated Ocean Observing System (IOOS). In response to this recommendation, the Administration, in its U.S. Ocean Action Plan, stated support for the development of IOOS. Under the U.S. Ocean Action Plan, a governance structure has been established to oversee the development of IOOS. The Joint Subcommittee on Ocean Science and Technology has established an Interagency Working Group on Ocean Observations. MMS was identified as a key component of the plan as demonstrated by its November 2004 Notice to Lessees (NTL) establishing an ocean current monitoring and data-sharing program in the Gulf of Mexico; a cooperative effort between MMS, NOAA, and the OCS industry. Due to a need for more site-specific data for forecasting ocean currents that may affect structural design, fatigue criteria, or daily operations—issues which fall squarely under the societal goals of IOOS—MMS and its partners established and implemented an ocean current monitoring and data-sharing program in the Gulf of Mexico. Under this program, deepwater oil and gas platform operators will collect ocean current data from deepwater drilling and production sites. They will then report their information to the NOAA National Data

Buoy Center website, making it publicly available to help ensure that OCS activities are conducted in a safe and environmentally sound manner.

MMS manages several other monitoring and study programs in partnership with other Federal or academic agencies focusing on many aspects of ocean science. MMS also supports the goal of advancing international ocean science and policy. The MMS takes an active approach to identify and become involved in international initiatives that promote better integration of safety and environmental concerns into offshore decision-making. To do this, MMS focuses on:

- monitoring, developing, and refining safety and environmental standards;
- technical and information exchanges with our international regulatory counterparts; and
- providing technical advice to the U.S. Department of State.

The MMS Environmental Studies program is responsible for a number of the discoveries, including: sperm whales in the Gulf of Mexico, deep water chemosynthetic communities, the documentation of artificial reef communities which provide habitat for unique marine communities as well as a preferred fishing prospect for charter boats, deep water coral communities, and the documentation of intertidal biological communities. In no small way, the conduct of the OCS program has increased the science base of the nation's ocean resources.

Conclusion

The Department of the Interior's OCS program is a significant contributor to the nation's energy supply. With the increasing activity in the deepwater Gulf of Mexico, the contribution from federal offshore areas will increase substantially in the upcoming years. There are substantial national economic benefits from the program—federal revenues, private sector productivity gains, and employment.

The environmental record of the OCS program is outstanding and improving. A significant platform spill has not occurred in the last 35 years. Over the past 30 years of production offshore California, over 1 billion barrels of oil have been produced with, on average, about 33 barrels of oil spilled per year. In comparison, over this same time period, natural seeps "spilled" about 140,000 barrels of crude oil annually offshore Southern California. The program's excellent spill record has improved dramatically in each of the last 3 decades, according to the recent study by the National Academy.

Regarding the longer term, there are long lead times for accessing frontier areas of the OCS. Lease sales cannot be held unless they are scheduled in a 5-year program. Once a lease sale is held, it could take 5 to 10 years for drilling to commence. Commencement of production could take another 5 years after a discovery. In a very real sense, regarding OCS policy decisions, if we wish the OCS to continue contributing this significant role, the future is now.

The expansion of MMS's ocean responsibilities on the OCS will also expand our oceanographic information needs. As such, MMS, NOAA, USGS, and other partners are already working to ensure that OCS relevant information needs are better integrated into the IOOS through even closer stakeholder input. These efforts also include working with all the Federal partners on the Interagency Working Group on Ocean Observations. The flurry of recent scientific news releases concerning record-breaking wave heights recorded in the Gulf of Mexico during Hurricane Ivan—information from research supported by the MMS and the Office of Naval Research—highlight the importance of ocean observations for proper stewardship of OCS resources.

Natural gas production offshore represents one of the most environmentally sound energy investments this country could make. A decision to not produce OCS resources also carries environmental consequences. Mostly, it will mean more imported oil and LNG to meet our nation's energy needs. Importing these resources poses risks of potential environmental impacts as well as financial and security costs to the nation.

In this time of uncertainty, MMS stands ready to respond—to apply our best science, technical experience, and sound management principles to benefit the nation.

Mr. Chairman, this concludes my statement. Please allow me to express my sincere appreciation for the continued support and interest of this committee for MMS's programs. I would be pleased to answer any questions you or other members of the Subcommittee may have at this time.

Mr. GIBBONS. Thank you, Mr. Readinger. I also want to thank the MMS for yesterday and allowing us and facilitating our tour of

the offshore facilities that we took. It was very important, and your testimony is very important to the overall understanding of that.

We turn now to the Secretary of Louisiana's Department of Natural Resources, Mr. Scott Angelle.

Welcome, Scott. The floor is yours.

**STATEMENT OF SCOTT ANGELLE, SECRETARY,
LOUISIANA DEPARTMENT OF NATURAL RESOURCES**

Mr. ANGELLE. Thank you, Mr. Chairman, and welcome to you and the distinguished Congressman from Louisiana and the staff members here. It is indeed a pleasure to welcome you here to the eighteenth state of our great Union where we talk a little different, if you haven't noticed, and sometimes we act a little different, like we did last night.

Louisiana is the most unique and diverse state in the country, and perhaps today you have the most important 1,000 acres of real estate in America's energy production.

Louisiana is the epicenter of crude oil/natural gas exploration, production, refining and distribution for the nation, as well as for imports for foreign crude oil and liquified natural gas. I make that statement with an immense sense of pride on behalf of all the citizens of Louisiana who are currently—approximately 34 percent—34 percent of the nation's natural gas supply, and almost 30 percent of the nation's crude oil supply is either produced in Louisiana, produced offshore Louisiana, or moved through the states and its coastal wetlands, some of which you are seeing on your visit here this week. Together with the infrastructure in the rest of the state, this production is connected to nearly 50 percent of the total refining capacity in the United States.

As most of you know, and as Congressman Jindal has said, the offshore area beyond 3 miles from the Louisiana coast is Federal territory. Other than any 3-mile transition zone, the Federal government receives all of the mineral revenue from production in the OCS. Based on 2004 data, OCS production—you've heard a lot about OCS production—OCS production off Louisiana's coast alone constitutes 91 percent of the oil and 75 percent of the natural gas production from all of the OCS in America. Louisiana provides our nation with one of the largest contributing factors to America's strategic security and economic prosperity, which allows for the high standard of living that we all enjoy.

Here is one example of how that translates. The pump price of gasoline has recently been hitting the \$2.50-per-gallon range in many parts of the country. If it were not for Louisiana's role in petroleum supply, Americans would likely be paying in the range of \$4 per gallon for gasoline today. That does not take into account the price for electricity, food and all the other things fueled by or made from oil and natural gas.

Offshore petroleum production is essential to the well-being of the United States. As you are aware, there are not many coastal states that allow new production. Currently, the states are only Alabama, Alaska, Louisiana and Texas. Offshore production provides economic prosperity for coastal states in the form of jobs, and for the service industries, providing the logistic support for the offshore industry.

While the jobs are important, and the energy is critical to fueling America, we have come to understand that what we are doing here in Louisiana is nation-building. Men and women of Louisiana work hard to explore, produce, transport, refine and distribute oil and gas. Through this work, we know we are building a stronger America. And I am here to tell you that we are proud of what we have done when it comes to producing the energy to fuel this great country. But I am also here to tell you that we are prepared and we want to do more for this country. We simply need your help.

Louisiana has suffered some negative impacts in the past from offshore production, but we know that oil and gas production is compatible with protecting and preserving the environment with now the oversight of several state and Federal regulatory agencies. Yes, we have to deal with some of these legacies of the past, but that's because Louisiana pioneered offshore production in the days before modern technology, before the awakening of America's environmental consciousness and before the advent of environmental regulatory agencies.

Louisiana's first oil well was drilled onshore in 1901. The first oil well ever drilled over water was in Louisiana in 1910, and it was in north Louisiana, in Caddo Lake. The first well drilled offshore Louisiana was in 1938. Things have changed dramatically since then. Louisiana is not looking back, we are looking to the future. With your help, we will create an even stronger energy pulse for America. We understand our role. One of our roles is to produce the fuel for America.

You may be asking yourself, what can you do to make the energy pulse stronger in America in Congress? One of the many ideas that industry executives and government officials has examined is extending Section 29 of the IRS code to deep and ultra deep production, and to immediately begin sharing with the states a portion of the royalties from drilling in shallow waters of the Gulf.

And finally, access, access, access, to open up some of the other areas of America to oil and gas development. Louisiana is continuously challenging itself to build a stronger energy pulse for America, but our biggest opponent is the elements of nature and the Federal decision to levee the Mississippi River. Louisiana loses more than 24 square miles a year of our coastal land, believed to be the fastest rate our planet, and we cannot continue to fight alone. We need your help to keep the energy pulse of the Nation beating strongly.

One way to achieve a strong energy pulse is to share with the coastal-producing states some of the offshore revenues generated off their coasts. This would encourage coastal states to pursue more development and, in turn, would help offset infrastructure costs that are associated with that development. When states like Wyoming, New Mexico, Colorado and others host drilling on Federal on lands onshore, they receive 50 percent of those revenues in direct payments and, consequently, have the financial resources to support that infrastructure.

In Fiscal Year 2004, Wyoming and New Mexico together received about \$928 million from those revenues, which we believe is an appropriate revenue-sharing procedure. We just want that rule to apply to us as well.

In contrast, for example, in 2001, of the \$7.5 billion in revenues produced in the Federal OCS, only a fraction of 1 percent went back to the coastal states. We believe this inequity is truly profound. Production off Louisiana's shore alone contributes an average of \$5 billion. Of that \$7.5 billion, \$5 billion alone comes from Louisiana. It is the second largest source of revenue for the Federal government, and that is when oil and gas was less than half of the \$60 per barrel it is selling for today.

We ask two questions: Doesn't it make sense to encourage the coastal-producing states, which provide that revenue and energy supply for the benefit of the rest of the nation; and doesn't it make sense that the Nation protect those who make these resources possible? The total value of the Louisiana Federal offshore infrastructure and onshore infrastructure support, including pipelines and port facilities, is over \$100 billion. This infrastructure is vulnerable if not protected by the state's barrier islands, saltwater marshes and freshwater wetlands. As these erode and disappear, infrastructure is exposed to the open sea and all of its fury.

The coastal impact assistance money provided in the Energy Policy Act of 2005 that you just helped us pass—and on behalf of all the people in Louisiana, we thank you for your efforts—is tremendous news. Yet, the \$540 million provided over four years, as Congressman Jindal says, for coastal restoration, is only a down payment for the \$14 billion needed to solve this problem.

In conclusion, it is vital to the nation's security and prosperity that new energy sources be developed. The OCS is probably the single most promising area of the U.S. to obtain significant new energy supplies, whether conventional oil and gas, imported oil, imported LNG, wind and ocean energy. The development requires the support of coastal states to cooperate, supply and maintain critical production and support infrastructure. Louisiana is prepared to cooperate.

By receiving an equitable share of revenue generated offshore, coastal states that do not currently allow offshore development will have an incentive to consider it, and the coastal states that do will be in a position to further develop it, and ensure that its production will be made available to the rest of the nation.

Louisiana stands ready to provide the leadership to build a stronger nation with a strong energy pulse. We believe that good relationships are like good bank accounts: You got to make a few deposits to make a few withdrawals. And when it comes to energy, Louisiana has made her fair share of deposits to this country.

[The prepared statement of Mr. Angelle follows:]

**Statement of Scott A. Angelle, Secretary,
Department of Natural Resources, State of Louisiana**

Mr. Chairman, Mr. Ranking Member, and distinguished members of the House Committee on Resources, it is indeed my pleasure to welcome you to Louisiana—America's Energy Corridor. Louisiana is the epicenter for crude oil and natural gas exploration, production, refining, and distribution for the nation, as well as for imports of foreign crude oil and Liquefied Natural Gas. I make that statement with an immense sense of pride on behalf of the citizens of the State of Louisiana in reflection of the enormous contribution Louisiana makes to the energy supply of your constituents and to the rest of the citizens of this great nation.

It is imperative that we, as a nation, stop reacting to energy situations imposed on us by outside forces, and instead, proactively start shaping our energy future. One of the ways to do that is to develop the full potential of the nation's offshore

energy resources and to assist those states that make that production possible off their coasts. This can be accomplished by sharing with those coastal producing states some of the offshore revenues generated off their coasts. This would encourage those states to pursue more development, and it would help offset infrastructure costs those states incur that are associated with that development.

Supplying the Nation: Louisiana—America's Energy Corridor

Where we are right now at Port Fourchon, is ground zero for the offshore petroleum supply of the nation. Louisiana has a long and distinguished history of oil and gas production, both on and offshore. Currently, approximately 34% of the nation's natural gas supply and almost 30% of the nation's crude oil supply is either produced in Louisiana, produced offshore Louisiana, or moves through the state and its coastal wetlands, some of which you are seeing on your visit here this week. Together with the infrastructure in the rest of the state, this production is connected to nearly 50% of the total refining capacity in the United States.

When it comes to developing the nation's offshore petroleum resources, there simply would not be much if it were not for Louisiana's leadership and participation. The offshore territory off Louisiana's coast is the most extensively developed offshore territory in the entire world. As most of you know, the offshore area beyond 3 miles from Louisiana's coast is federal territory called the Outer Continental Shelf, or OCS. Other than in a 3-mile transition zone, the federal government receives ALL of the mineral revenue from production in the OCS. Based on 2004 data, OCS production off Louisiana's coast constitutes 91% of oil and 75% of natural gas production from all U.S. OCS areas combined. Additionally, Louisiana OCS territory has produced 88.8% of the 14.9 billion barrels of crude oil and condensate and 82.3% of the 150 trillion cubic feet of natural gas ever extracted from all federal OCS territories since the beginning of time.

Offshore Energy Development and Economic Prosperity

This service that Louisiana provides to the nation is one of the largest contributing factors to America's strategic security and economic prosperity, which make possible the high standard of living that we all enjoy in this country. Let's look at just one example of how this translates to you. The pump price of gasoline has recently been hitting the \$2.50 per gallon range in many parts of the country. If it were not for Louisiana's role in the petroleum supply of the nation, you and your constituents would likely be paying in the range of \$4.00 per gallon for gasoline today, and that does not address how sky-high prices would be for electricity, food, and all of the other things fueled by, or made from, oil and natural gas.

Offshore petroleum production is not only good for the country, but it is essential to the well-being of the USA. Offshore production is also good for coastal producing states, and there are not many of us—coastal states, that is, that allow new production off our coasts. The list currently consists of only Alabama, Alaska, Mississippi, Louisiana, and Texas. Even without being able to share in the mineral revenue produced for the federal treasury off our coasts, offshore production produces economic prosperity for coastal states in the form of jobs for the service industries providing the logistics support for the offshore industry. This includes, among others: equipment and materials suppliers; food service; helicopter and boat transportation; communications services; engineers, geologists, boat and rig crews; other industry staff and employees; and many others. The offshore industry also supports many jobs far removed from the coastal states, including a multitude of employees who, because of the week on, week off type of schedules, commute up to 500 miles or more from places like Arkansas, Tennessee, and Georgia to work offshore in the Gulf.

Offshore Development Includes LNG

Stepping up to the plate to help the nation obtain new supplies of energy including LNG (liquefied natural gas), Louisiana is the home of the largest throughput facility (Southern Union in Lake Charles) of the four existing LNG import terminals in the U.S., and it is undergoing more than a doubling of capacity from 1 billion cubic feet per day to 2.5 billion cubic feet per day. While almost every state in the nation is trying to prevent the siting of any new LNG facilities, Louisiana is the site of the largest permitted LNG import terminal in the nation (Cheniere Energy's 2.6 billion cubic feet per day facility in Sabine Parish).

Louisiana is also the home LOOP (Louisiana Offshore Oil Port), the only deep-water offshore oil import terminal in the world.

Offshore Development and Preserving the Environment Are Compatible

I am also here to tell you, that oil and gas production is compatible with protecting and preserving the environment. Louisiana can look at experience and footnote that offshore development and the associated onshore infrastructure construc-

tion and operations are done in an environmentally responsible way today and are done so under the oversight of several state and federal regulatory agencies.

Louisiana has suffered some negative impacts in the past from offshore production. And, yes, we still have to deal with some of those legacies of the past, but that is because Louisiana pioneered offshore production in the days before modern technology, before the awakening of America's environmental consciousness, and before the advent of environmental regulatory agencies and regulations.

Louisiana's first oil well was drilled in 1901. The first oil well over water in the world was in Louisiana in 1910 in Caddo Lake. The first well drilled off the coast of Louisiana was in 1938 near Creole, Louisiana. Louisiana was the site of the first well drilled out of sight of land in 1947. Things have changed dramatically since 1910, 1938, 1947, or even 1960, 1970, or 1980. Simply put, it was like the old Wild West out there. Just as in other industries in other parts of the country in other times, there was once a time, long, long ago, when almost anything in the name of progress was accepted. Everything is different now. That era and those practices have nothing more in common with modern exploration, production, and environmental techniques than transportation by horse and buggy in 1800's has in common with jet airliners flying overhead today.

Louisiana's Role as a Producing and Consuming State

Energy is the lifeblood of an industrialized nation and a key economic driver for the country. A reliable and affordable supply of energy is necessary for economic development, prosperity, and expansion. Although technological improvements and investments in energy efficiency have reduced this country's energy consumption per unit of Gross Domestic Product over the past 20 years, increased economic prosperity is still dependent on increased energy consumption. In the U.S., the availability of energy has generally been taken for granted, but recent blackouts in California and other parts of the country, the emergence of 60 plus dollar per barrel oil and \$7 to \$8 per million BTU natural gas, and the drive to build terminals to import foreign natural gas in the form of a cryogenic liquid, have highlighted the need for addressing energy supply.

I come to you representing a state to which energy is its middle name. The words Louisiana and energy are almost synonymous. Among the 50 states, Louisiana ranks (2004 Energy Information Administration—EIA data):

- 1st in crude oil production
- 2nd in natural gas production
- 2nd in total energy production from all sources

The importance of energy to Louisiana is further highlighted in the following rankings in which Louisiana is (2003 EIA data latest available):

- 2nd in petroleum refining capacity
- 2nd in primary petrochemical production
- 3rd in industrial energy consumption
- 3rd in natural gas consumption
- 5th in petroleum consumption
- 8th in total energy consumption
- but, only 22nd in residential energy consumption

Usually, when national energy issues are discussed, Louisiana is cast in the image of a rich producing state floating in a sea of oil and gas that is being inequitably shared with the consuming states. Often misunderstood or overlooked, is the fact that about two thirds of the production from the state is in the Louisiana federal OCS (Outer Continental Shelf) territory and, hence, produces no revenue for the state, while at the same time incurring significant infrastructure support costs to the state, which I will discuss in more detail later.

Also often overlooked or not explained, is the fact that, though Louisiana is the 2nd highest energy producing state in the nation, Louisiana is also 8th highest in total energy consumption. Therefore, Louisiana is more of a consuming state than 42 other states! This story is never told, nor are Louisiana's difficulties as a key consuming state given much concern at the federal energy policy level. Thus, when Louisiana, the energy producing state speaks, it is also Louisiana, the energy consuming state speaking. Louisiana is inexorably tied into the issues of all states in the nation, whether considered producing states or consuming states. However goes the energy situation in Louisiana, so goes the energy situation in the United States of America.

Louisiana's Role as a Through-Processor of Hydrocarbons for the Nation

All of the preceding represents only the direct supply line of oil and natural gas. Additionally, Louisiana's 8th highest ranking among the states in energy consumption is attributable to the fact that Louisiana is consuming most of this energy as

a through-processor of energy supplies for the rest of the nation, consuming colossal amounts of energy for their benefit. An example of how Louisiana is consuming energy resources for the primary benefit of other states is petroleum refining. The energy equivalent of 10% of Louisiana's entire petroleum product consumption is required just to fuel the processes that refine crude oil into gasoline, diesel fuel, jet fuel, heating oil and other products consumed out of state. The oil refining industry employs only about 10,400 workers in the state; whereas tens of millions of jobs throughout the country are dependent on the affordability and availability of the products from the continued operation of these refineries and associated petrochemical facilities in Louisiana.

Many other examples could be cited of the numerous energy intensive natural gas and oil derived chemical products Louisiana (and also Texas, Oklahoma, and California) through-processes for the rest of the U.S. per unit of output, these industrial processes in Louisiana are characterized as capital (equipment), energy, raw material, and pollution discharge intensive, and low in labor requirements and dollar value added, essentially the opposite of the downstream industries in other states that upgrade these chemicals into ultimate end products. Much of the energy Louisiana technically consumes is really the transformation of oil and gas into primary chemical building blocks that are shipped to other states where the final products are made, whether it be plastic toys, pharmaceuticals, automobile dash boards, bumpers and upholstery, electronic components and cabinets, synthetic fibers, or thousands of other products dependent on this flow of energy and high energy content materials out of Louisiana.

OCS Infrastructure and Its Impacts and Needs

It is important to understand that there is no free lunch. Louisiana, like other coastal producing states, sustains impacts on coastal communities and bears the costs of onshore infrastructure required to support this production activity.

Saving Louisiana's Wetlands that Protect Offshore and Onshore Production Infrastructure

Louisiana's unique and fragile coastal wetlands introduce yet an additional issue: land loss. Louisiana loses more than 24 square miles of our coastal land each year. In fact, if what is happening today in coastal Louisiana were happening in our nation's capital, the Potomac River would be washing away the steps of the Capitol today, the White House next year, and the Pentagon soon after that. In fact, during the course of this morning alone, Louisiana will lose a football field wide area from the Capitol Building to the Washington Monument.

There are many causes of this coastal erosion in Louisiana, including what may be the most significant factor: building levees and channeling the Mississippi River. Whatever the cause of its demise, the health and restoration of Louisiana's coastal wetlands are vital to protecting the offshore and onshore infrastructure that is essential for the continuation, as well as the expansion, of offshore energy production in the Gulf of Mexico.

Once the State realized the magnitude of the coastal erosion problem, we got serious about doing something about it. In 1980, the coastal restoration permitting program was moved to the Department of Natural Resources (DNR). In 1981, \$40 million of state oil and gas revenue was set aside in a legislative trust fund for coastal restoration projects. The State has a dedicated revenue stream of up to \$25 million per year, depending on the level of revenue collections from oil and gas production within the state, to replenish the fund. In the past few years, that replenishment stream has been at the \$25 million level. In 1989, the Office of Coastal Restoration and Management was created in DNR, and the magnitude of the program was greatly expanded.

The War Against the Elements

Let me emphasize something extremely important to this nation's energy supply. Here along the coast, WE ARE AT WAR. It is a war in which the enemy is the elements of nature. It is an enemy with names like Andrew, Ivan, and Dennis—hurricanes. It is an enemy with names like wave erosion, storm surges, sedimentary subsidence, soil consolidation, salt water intrusion, and leveeing of the Mississippi River.

We are part of a team called the USA, but it often seems like Team USA expects Louisiana and a few other coastal states to have supernatural power to go out, wage war against the elements and bring back the victory prize of oil and gas supplies and mineral revenue for the whole country armed only with a slingshot, like the Biblical David, when the enemy is a Goliath throwing 50-foot waves, 25-foot storm surges, and 150 mile per hour winds against the fragile wetlands that protect and make possible America's offshore production infrastructure.

If you see something wrong with that picture, you are right. As you sit here at Port Fourchon on the pulse of the nation's vulnerable energy heart, I hope you will recognize the need to do more to help us, the coastal producing states, keep the energy pulse of the nation beating strongly for the benefit of you and your constituents.

Extent of Louisiana Infrastructure Supporting OCS Production

The total value of the Louisiana OCS infrastructure and the onshore infrastructure supporting it is difficult to ascertain. The estimated depreciated investment in offshore production facilities is over \$85 billion, depreciated offshore pipeline infrastructure is over \$10 billion, and public coastal port facilities is \$2 billion, for a total of approximately \$100 billion, depreciated, and not counting highways, sewer, water, fire and police protection, schools, and other public works structures that also have ongoing operation and maintenance costs. The replacement of all of this would be several times the \$100 billion depreciated figure. It also does not count the onshore coastal infrastructure of pipelines, storage facilities, pumping stations, processing facilities, etc.

This infrastructure is vulnerable if not protected by the State's barrier islands and marshes. As these erode and disappear, infrastructure is exposed to the open sea and all of its fury. As the coast recedes, near shore facilities become further offshore and subject to greater forces of nature, including subsidence, currents, and mudslides. Erosion in the coastal zone is already beginning to expose pipelines that were once buried.

A Wake-up Call from Hurricane Ivan

To bring home the point of infrastructure vulnerability, we need only look back to this past Summer. Hurricane Ivan was not even a direct hit on Louisiana's offshore and coastal oil and gas infrastructure, striking two states away; yet, its effects on the nation's supply of oil and gas were significant, even many months after it hit. Most of the damage occurred along pipeline routes rather than actual structural damage to the producing platforms. As of February 14, 2005, when the Minerals Management Service (MMS) released its final impact report on Ivan, 7.42% of daily oil production and 1.19% of daily gas production in the Gulf of Mexico was still shut-in. The cumulative shut-in production through February 14 was 43.8 million barrels or 7.25% of annual Gulf of Mexico OCS production and 172.3 billion cubic feet of natural gas or 3.9% of annual Gulf of Mexico OCS gas production.

As more of the protection from Louisiana's barrier islands and coastal wetlands wash away, increasingly more of this offshore production will be damaged or destroyed by even less powerful storms than Ivan, and particularly by storms whose paths more directly pass through the producing areas off of Louisiana's coast. Direct hits to the prime production area by hurricanes and tropical storms will cause incalculable damage to this production infrastructure, as well as to the onshore support infrastructure.

How to Increase Offshore Energy Production

Share Offshore Revenue with the States that Allow Offshore Production

The most effective way to help is to assist those states that make offshore energy production possible off their coasts. This can be accomplished by sharing with those coastal producing states some of the offshore revenues generated off their coasts. This would encourage those states to pursue more development, and it would help offset infrastructure costs those states incur that is associated with that development. Louisiana, like other coastal producing states, sustains impacts on coastal communities and bears the costs of onshore infrastructure to support this production activity.

When states like Wyoming, New Mexico, Colorado, and others host drilling on federal lands onshore, they receive 50% of those revenues in direct payments, and consequently have the financial resources to support that infrastructure. In Fiscal Year 2004, Wyoming and New Mexico together received about \$928 million from those revenues, which IS an appropriate revenue sharing procedure.

In contrast, for example in 2001, of the \$7.5 BILLION in revenues produced in the federal OCS area, only a fraction of one percent came back to those coastal states. The inequity is truly profound.

We are pleased this committee is investigating ways to increase offshore energy production. The need to sustain the existing supply that Louisiana provides must simultaneously be addressed. The most effective answer to both issues is to share offshore revenues with the coastal producing states that make that production possible. It is critical that coastal producing states receive a fair share of revenues to build and maintain onshore infrastructure and, in Louisiana's case, to help stem our

dramatic land loss, which is occurring at a rate believed to be the fastest on the planet.

Production off Louisiana shores alone contributes an average of \$5 BILLION dollars a year to the federal treasury, its second largest source of revenue. And, that was when oil was less than half of the \$60 plus per barrel price it is selling for today.

Does it not make sense to encourage the coastal producing states which provide that revenue for the benefit of the rest of the nation? Does it not make sense, that when so many, like the U.S. Ocean Commission, are targeting offshore OCS revenues to pay for worthwhile preservation of natural resources, that this nation first protect those who make these resources possible?

Already, in Louisiana's coastal zone, many of the pipelines and other infrastructure that our wetlands have historically protected are now exposed to open Gulf of Mexico conditions. I shudder to think of the production infrastructure damage and the economic impacts to this nation, had Ivan gone a relatively few miles further west with a direct hit on the infrastructure off Louisiana's shore. According to analysts, oil prices would realistically have hit \$75 dollars a barrel. Since oil prices have risen since then, the price rise would be even higher now.

Maintaining any ongoing operation requires reinvestment to maintain, repair, and replace worn out or outdated equipment and facilities. As any farmer can tell you, you cannot just take from the land forever without putting something back into the operation. Out of the harvest of crops, the farmer has to set aside a portion as seed to plant for the next harvest. He has to fertilize the land to replace depleted nutrients, plow and till the soil, rotate crops, control runoff and erosion, irrigate, apply pesticides and herbicides, buy and repair machinery. Likewise, to maintain, much less increase, production from off our coasts, we must reinvest in the infrastructure that makes all of the activity possible, whether it be port facilities, roads to transport equipment and supplies, erosion control, or barrier island and wetlands storm protection.

Assistance from the Energy Policy Act of 2005

The Coastal Impact Assistance Money provided in the Energy Policy Act of 2005 that you just helped pass is tremendously good news for the state's coastal restoration efforts. Yet, the \$540 million provided over four years for coastal restoration is only a drop in the bucket compared to the total of \$14 billion needed over 20 to 30 years for Louisiana's unique coastal restoration needs.

Enact Legislation to Extend Section 29 Tax Credits to Deep and Ultra-Deep Production in States Allowing Offshore Production and to Immediately Share with the States 50% of the Royalties from Deep Drilling in the Shallow Waters of the Gulf:

Section 29 of the Internal Revenue Service (IRS) Code granted a tax credit for the production of natural gas from unconventional resources (coal bed methane and tight sands gas). The effect of the application to coal bed methane gas production was astounding in those areas of the country that have significant deposits of this kind, which is not along the Gulf Coast. Natural gas reserves from coal bed methane rose from 6.3% of U.S. reserves at the end of 1993 to 9.9% at the end of 2003. Annual natural gas production from coal bed methane rose from 4.2% of U.S. dry gas production in 1993 to 8.2% by the end of 2003.

Deep natural gas reserves (15,000-24,999 feet sub-surface) and ultra-deep gas reserves (greater than 25,000 feet sub-surface) are the next most immediate resources for meeting the supply and deliverability needs of the U.S. market. These resources should be granted the same tax credit as was granted to coal bed methane producers. The resulting stimulus to production should be at least equal to the coal bed methane results, and would very likely far exceed it in time as capital is brought to bear on this drilling domain. The federal Minerals Management Service (MMS) has recently instituted significant deep shelf royalty incentives for the shallow federal waters of the Gulf of Mexico shelf. This does no good for the adjacent state waters and onshore areas. The Section 29 credits need to be instituted for state waters and onshore areas, at least in those states allowing federal offshore production.

Another thing that is needed immediately, is to share with coastal producing states 50% of the royalties from new deep drilling in the shallow federal waters on the shelf. The MMS royalty deep shelf suspension program is a good program, but it is draining investment from our parishes by shifting drilling across the boundary line into federal waters, causing loss of investment and tax revenue from lost drilling in state territory. Louisiana should receive 50% of royalties from deep drilling on the shelf immediately.

Encourage New Energy Sources and Technology

Recent studies show that the Gulf of Mexico has a significant wind energy potential. Although wind power does not have the energy density of petroleum, it is an inexhaustible, renewable source of clean energy. Again, much to my consternation, it appears that there are many parts of the country that use a lot of energy and want it at low prices, but do not want production of any kind, anywhere near them, including wind energy. Again, Louisiana is stepping up to help encourage this clean energy source. The State of Louisiana is currently working with private sector investors who are interested in developing wind farms in state and federal waters off Louisiana's coasts. My office submitted wind power legislation which the Louisiana Legislature passed earlier this year to facilitate offshore wind power development in Louisiana's State offshore waters.

Natural gas hydrates probably offer the greatest untapped energy resource the nation has. The Oil and Gas Journal recently reported that the U.S. Geological Survey estimates that methane hydrate deposits are greater than all other forms of fossil fuels combined. Large deposits of gas hydrates are believed to lie below the offshore waters of the U.S. Unfortunately, technology to tap these resources needs to be developed. Once the technology is available, the first areas to be developed will be the areas adjacent to the existing offshore producing areas where the infrastructure is in place to get it to shore and into the nation's pipeline distribution system. The federal government needs to fund meaningful research into developing the technology to produce gas hydrates, assessing the resource base, and delivering it.

In Conclusion

It is vital to the nation's security and prosperity that new energy sources be developed. The federal government has proven that it has the ability to steer investment, as in the case of deep water drilling in the Gulf and coal seam gas. In addition to its significance in producing 30% of oil and 23% of natural gas produced domestically, which is mostly off Louisiana, the OCS is probably the single most promising area for the U.S. to obtain significant new energy supplies. These supplies, whether conventional oil and gas, imported oil, imported LNG, wind and ocean energy, or gas hydrates, need the support of coastal states to cooperate and to supply and maintain critical production and support infrastructure.

LNG facilities are being built where the existing U.S. pipeline infrastructure exists (essentially Louisiana and Texas) in order to get the gas from the coast into the delivery system to supply the nation. The same will be true when the technology is developed to commercialize methane hydrate production off the coasts. This Louisiana and Texas infrastructure will also be used when deep and ultra-deep shelf production comes on stream. This is another reason why offshore revenue should be shared with the coastal producing states and why the extension of Section 29 tax credits should be extended to deep gas exploration at least in the states that are allowing onshore and offshore drilling and allowing the siting of LNG facilities to make energy available to the rest of the country.

With effective policies and incentives, the federal government can steer investment into the offshore areas, and by receiving an equitable share of revenue generated offshore, the coastal producing states can be in a position to ensure that this production will be made available to the rest of the nation. As the granddaddy of all producing states, literally and figuratively, Louisiana desperately needs immediate revenue sharing financial assistance from a source not subject to annual appropriations, to continue to maintain existing, and to develop future energy supplies for the nation.

It would be a travesty for the Congress to enact national energy legislation without substantial OCS revenue sharing in the form of direct payments to the coastal producing states from the revenue derived from offshore production, similar to the automatic payments for drilling on federal lands onshore, and before any other dispersal of those monies.

Thank you for coming to Louisiana and for this opportunity to appear before you.

**Response to questions submitted for the record by
Secretary Scott A. Angelle**

1. *At this point it would seem that, if the federal government ever worked out a system whereby oil and gas development could occur in a least a portion of the Eastern Gulf of Mexico, that portion would be nowhere near the Florida coast. Is Louisiana prepared to continue to support—through Port Fourchon, for example—any offshore activity that might occur there?*

Louisiana regards the full exploration and development offshore all coasts of the U.S. to be in the strategic and economic interests and benefit of the nation.

Louisiana is ready and willing to support the development in the Eastern Gulf up to the full limits of the capability of the infrastructure. There are physical and economic limits as to what is the ultimate development activity level the state could expand to accommodate. With sufficient funding, in the form of dedicated revenue sharing assistance, the state could readily expand capabilities to support major new offshore development in the Eastern Gulf.

2. *If the federal government could move legislation that provided some sort of revenue sharing to states that support offshore development, what sort of "sharing" would you like to see?*
 - a. *An annual hard dollar amount?*
 - b. *A percentage of OCS revenues?*

Either approach or a combination of the two could work. Our preference would be for the state to receive 50% of revenue from all production in the Louisiana federal offshore area (MMS Central Gulf Planning Region) and a portion of revenues from the production in the Eastern Gulf logistically supported from Louisiana infrastructure. That would provide sufficient revenue for the state to address both the massive funding needs of coastal erosion and wetlands restoration in the state, as well as funds to update and expand the ports and other coastal and onshore infrastructure needs created by existing and expanded development of the Eastern and Central Gulf.

3. *Does this revenue sharing need to be dollars that are directly funded? Or can they be appropriated? Why?*

It is crucial that these shared funds be directly funded. In Louisiana, we urgently need these funds for multi-billion dollar capital projects that require extensive research, planning, design, construction, monitoring, and management outlays. For coastal restoration projects alone, Louisiana needs a minimum of \$14 billion (in today's dollars) over the next 20 to 30 years. Added to that are other large capital projects such as widening, elevating, and / or replacing highways across the marshes, port development and expansion, water supply, drainage, and flood control.

Construction and maintenance of highways is a very expensive engineering challenge in Louisiana's vast coastal wetlands. These highways, such as Louisiana Highway 1, the only land route to Port Fourchon, are the logistical supply lines for hundreds of thousands of truck deliveries to and from the ports, as well as the transportation routes of the offshore workforce. In times of hurricane and other serious storm threats, these highways are the only escape route to higher ground for tens of thousands of coastal and offshore families and workers. Additionally, state and local governments must supply public safety and health services such as fire, police, municipal waste disposal, hospitals, etc.

The preceding projects require long term planning horizons, large capital expenditures, and long term expenditure commitments. It is not feasible to accomplish these objectives with unstable or unreliable funding sources, such as would be the case with annual appropriations subject to varied Congressional and Presidential budget considerations each year. Additionally, Louisiana is only asking for the same revenue sharing percentage (50%) and mechanism (automatic direct payments exempt from the appropriation process) that is used to share revenue with states that have oil and gas production from federal lands onshore.

4. *Would you prefer to see that the federal government set up a system prescribing how states would be eligible for this money?*

No, we would prefer the mechanism now used to share revenue with states for oil and gas production from federal lands onshore.

5. *Would you prefer to see that the federal government set up a system prescribing how states could spend this money?*

No, we would prefer the mechanism now used to share revenue with states for oil and gas production from federal lands onshore.

6. *Mr. Falgout, noted in his testimony that the oil and gas industry co-exists with many other coastal users, and that it doesn't have to be one or the other. The committee agrees with him that it is a false choice to believe America must choose one or the other. Mr. Davis also noted a similar theme in his testimony that the "belief that OCS development is incompatible with environmental stewardship and the best interests of communities is widespread and it runs deep". I open this question to the entire panel. How then, can a Florida, or a California, be convinced that the industry can—and does—coexist with other uses, and the environment? Please provide specific examples if you can.*

Perhaps answering the question of how can a Florida or a California be convinced of this, requires answering the question, "Why should they take a chance?" As things are now, what reason does a coastal state have to allow drilling off their coast? They look at Louisiana, a state that could not cooperate more to facilitate offshore drilling, and see how Louisiana, as a COOPERATIVE state, is treated by the federal government when it comes to revenue sharing, funding coastal restoration, wetlands mitigation assistance, etc., and have to wonder what overriding benefit is in it for them.

They get the benefit of the energy and revenue produced off Louisiana's coast without having to risk any costs or damage, real or perceived, by exposing their coastal areas to any oil and gas activity.

Add to this the fear created by lack of familiarity. As people learn more about a subject, experience it, and see its effects, they get more comfortable. Louisiana has a long experience with oil and gas production, and a large percentage of Louisiana citizens are familiar with the industry and know how exploration and production are done today.

A visit to Louisiana's coastal ports in areas such as Venice and Port Fourchon will make it very clear that a major saltwater sport fishery is associated with offshore oil and gas platforms. Large numbers of fisherman pursuing snapper, mackerel, tuna, cobia, spotted seatrout and many other species concentrate much of their successful angling efforts around offshore oil and gas production platforms off Louisiana. The fact that Louisiana's commercial fisheries landings (dominated by coastal-dependent species) lead all other Lower 48 States is also evidence that oil and gas development is compatible with high levels of biological productivity.

Most of Louisiana's environmental issues related to oil and gas development stem from two primary factors. One, Louisiana has a unique coastal wetlands geology (See the answer to question 7 below for more on this.), which has made Louisiana's coast ultra-sensitive to disturbances of any kind, and there have been many, both man-made and natural. Two, Louisiana was the pioneer in developing coastal and offshore oil and gas development dating from back in the days of little knowledge of, almost no awareness of, and no regulation of, environmental impacts. Times, experience, technology, regulation, and conscientiousness related to oil and gas development and preserving the environment have all changed since the pioneer days. As a legacy of the past, it is true that pipelines originating in the OCS have had significant adverse impacts on Louisiana's coastal wetlands and barrier shorelines. Over the years, however, modern construction techniques and improved technology have substantially reduced such impacts. For instance, even large pipelines can be directionally drilled under barrier islands to minimize damages to those sensitive features.

Louisiana can look at experience and show that offshore development and the associated onshore infrastructure construction and operations are done in an environmentally responsible way today and are done so under the oversight of several state and federal regulatory agencies. We have been the proving ground, and others can benefit from our experience.

7. *This committee appreciates the willingness of your state to play host to a large percentage of the oil and gas that fuels our economy. Furthermore, we commend you for taking initiative to address the coastal erosion problems you are currently facing. How much money do you think it will cost to fully address the coastal erosion problems as you see them?*

As I mentioned in response to question 3 above, Louisiana needs a minimum of \$14 billion (in today's dollars) over the next 20 to 30 years. Louisiana has quite a unique geology relative to the rest of the country. The Louisiana coast is geologically the youngest part of the U.S. and, prior to manmade interference from leveeing and channeling the Mississippi River and other activities, was still accreting land mass faster than it was losing it to subsidence, erosion, salt water intrusion, sea level rise from global warming, and other causes. The science of coastal geology and the expertise of coastal engineering to counter these forces is in its infancy, as it has never in the history of civilization, been attempted on the scale it must be implemented

in South Louisiana. Also, we are dealing with a situation that is continuously subject to changing dynamics, such as more frequent and more powerful hurricanes, the apparently increasing effects of global warming, etc. Hence, we cannot be assured that, ten or more years down the road, we will find that the estimated \$14 billion price tag is an adequate estimate.

8. *What is the average amount of 8(g) money flowing to Louisiana today? Has this number been steady? Building? Declining?*

Section 8(g) settlement payments, which had increased to an annual amount of \$8.4, ended in 2001. Since then, the state has been receiving only the 27% share of royalties (including rentals and bonuses) for the 3-mile wide Section 8(g) zone. This 8(g) royalty payment varies up and down with oil and gas prices and production activity. Below are the 8(g) payments (excluding the discontinued settlement payments) to Louisiana for 1993 through 2003. We do not have a figure for 2004 yet, but estimate it to be about \$38 million:

1993 --	\$14.5 Million
1994 --	20.6
1995 --	15.0
1996 --	23.1
1997 --	26.6
1998 --	20.2
1999 --	15.3
2000 --	22.7
2001 --	40.6
2002 --	11.9
2003 --	29.6
2004 --	38.0 (Estimated)

9. *In your written testimony you recommend extension of Section 29 tax credits to deep and ultra-deep natural gas production in the Gulf of Mexico. Please explain the benefits that you believe would come from such action.*

Deep natural gas reserves (15,000-24,999 feet sub-surface) and ultra-deep gas reserves (greater than 25,000 feet sub-surface) are the most immediately available resources capable of providing a substantial increase in domestic production of natural gas. Substantial deep gas reserves are known to exist, and a deep gas well can have the productive capacity many fold over that of coal seam wells and as much as five to ten times that of conventional shallower wells. For example, a typical coal seam gas well may produce 100,000 cubic feet (CF) per day, a good conventional 15,000 foot well could produce 1 to 2 million CF per day, and a deep gas well could produce in excess of 50 million CF per day. The richest deep gas domain known in the U.S. underlies the onshore area and adjacent offshore shallow water shelf of the Gulf of Mexico. A 1998 study of the Potential Gas Committee put estimates of the U.S. deep gas resource base at possibly 170 Trillion Cubic Feet. The deep gas domain along the Gulf Coast underlies the existing surface infrastructure of pipelines, gas processing plants, and other drilling / production support infrastructure to move this gas into the U.S. gas supply immediately.

One problem is that, while productivity increases with depth in elevated reservoir pressure wells, drilling costs rise exponentially with well depth, and the drilling of one deep well takes a year or more. For example, conventional wells less than 15,000 feet normally cost between \$100,000 and \$2 million to drill. The deeper 15,000, plus foot range wells average around \$6 million, 20,000 foot wells about \$16 million, and 25,000 to 30,000 foot wells are in the range of \$25 million, plus. Hence, the capital at risk for a dry hole is substantial, which makes the ability to fund such ventures difficult. Additionally, deep wells require leading edge drilling technology. Due to the limited amount of deep drilling done, few companies have the experience, technological capabilities, and financial resources to undertake this high return, but high risk activity. Of the few companies that have the ability to drill in this domain, most are the major oil companies, who have focused their financial resources on the more lucrative oil reserves of the deep water Gulf and drilling in foreign countries. Substantial new financial incentives could significantly reduce the entry hurdle, increase the reward to risk ratio, and reduce barriers to capital access, particularly for the independent companies who now do most of the onshore drilling in this country.

The effectiveness of using the Section 29 credit approach has already been demonstrated. Section 29 of the Internal Revenue Service (IRS) Code granted a tax credit for the production of natural gas from unconventional resources (coal bed methane and tight sands gas). The effect of the application to coal bed methane gas production was astounding in those areas of the country that have significant deposits of

this kind, which is not along the Gulf Coast. Natural gas reserves from coal bed methane rose from 6.3% of U.S. reserves at the end of 1993 to 9.9% at the end of 2003. Annual natural gas production from coal bed methane rose from 4.2% of U.S. dry gas production in 1993 to 8.2% by the end of 2003.

Mr. GIBBONS. Thank you, Mr. Secretary. While you may speak funny, you speak very clearly for the people of Louisiana and this country. We really appreciate what you have said. You are a strong advocate for your position and it comes across very clear. It is greatly appreciated, what you have said today.

We turn now to the President of Lafourche Parish, Charlotte Randolph. Thank you. We enjoyed our time we spent last night getting to know each other and look forward to your testimony.

**STATEMENT OF CHARLOTTE RANDOLPH,
PRESIDENT, LAFOURCHE PARISH**

Ms. RANDOLPH. Good morning to you, Chairman Gibbons. It was a delight last night.

Congressman Jindal, good morning, as well. Mr. O'Shea, on behalf of Congressman Melancon, and to the other members here, on behalf of the residents of Lafourche Parish, I would like to formally welcome you today to Port Fourchon, the hub of Louisiana's offshore oil and gas industry and a portal to much of the nation's oil imports.

Port Fourchon is at the tail end of Lafourche Parish, yet, we are eager to report that this tail is wagging the dog.

Lafourche had been supporting and encouraging the exploration of oil and gas for over 60 years. The economy of the parish has been and continues to be dependent on oil and gas revenues. The majority of the top taxpayers in the parish are involved in the petrochemical industry, both directly and in service-related businesses. Oil royalties from onshore operations comprise 5 to 10 percent of our revenues and provide funding for capital improvement projects, roads, bridges and drainage projects. Royalty revenues recently provided collateral for a \$15 million road improvement program in the central and northern parts of Lafourche Parish.

These revenues allow us to maintain the infrastructure of our communities and supplement basic operations, such as the detention center, our court system and the district attorney's office. The funds are also used to partner with the state and Federal governments to stabilize and protect Louisiana Highway 1, the only link to Port Fourchon.

Forty-five years ago, Act 222 of the Louisiana legislature created the Greater Lafourche Port Commission. The people of the Tenth Ward of Lafourche Parish agreed to tax themselves to create this port. The men who comprise the commission over the years developed Lafourche Parish into the focal point of the Gulf of Mexico's domestic deepwater oil and gas production, changing the economy of Lafourche. Unskilled laborers were able to secure good paying jobs and comfortably retire years later. Fishing boats were converted into oil field service vessels, creating companies that are now supporting the third generation of family members and employing thousands.

As a testament to our prowess in industry, Lafourche mariners were integral to the successful development of oil fields in the

North Sea. The experience in the industry allowed many local residents to prosper when the North Sea was flourishing.

The construction of the Louisiana Offshore Oil Port in 1979 is an important milestone in our parish's history. LOOP is a consortium of private energy firms operating the offshore terminal for off-loading imported oil, conducting business from a facility located in Galliano, and maintaining an east-west LOCAP pipeline network. For many years, LOOP was the top taxpayer in Lafourche Parish. They were removed from the top spot by a marine service company. Pipeline companies are also among the top ad valorem taxpayers.

Lafourche Parish starts nearly 90 miles to our north, in the sugar cane fields along our namesake, Bayou Lafourche. The economic engines providing for our citizens include agricultural, seafood, shipbuilding and the oil and gas industry. Thus, our motto, "Feeding and fueling America." We are that significant.

While oil and gas is often described as a cyclical industry, nothing is more unpredictable than the agriculture and fishing industries. Both succeed and fail at the hands of Mother Nature. Our founding fathers were fishermen and farmers, for we are rich in resources. Yes, we have come to rely on the more stable oil and gas industry for our economic sustenance.

The shipbuilding industry has also flourished in conjunction with the oil and gas industry. Large and small shipyards dot Bayou Lafourche and the Intracoastal Waterways.

The energy industry does not only support our residents and Lafourche companies. Workers from throughout the region, the state and many other states travel here for shift work, bringing home better paychecks than they could have earned where they live and perhaps finding a good-paying job here when none was available back home. They also leave behind precious sales taxes, which pay for our schools and police departments. The parking lots of Port Fourchon and the offices of the boat companies contain many vehicles with out-of-state license plates. The trucking companies, which traverse our highways, bring products from many different parts of the United States, providing jobs in the very important support industry throughout this country.

Pipelines buried deep under sugar cane fields and cattle pastures far north of here provide the property taxes for recreation centers.

I would be remiss if I failed to mention the philanthropic aspect of our partnership with oil and gas. Major companies have provided a generator for an evacuation center, sponsorship for BeachSweep here at Port Fourchon, the underwriting of special projects at recreation centers and renovations to our churches. No fund-raising effort is complete without generous donations from oil-and-gas-related companies.

On a personal note, I'm an avid fisherman. It is the best opportunity to escape close to home. Sometimes we go far enough out into the Gulf where my cell phone doesn't work. And I have to endure the admonishments of my husband for casting toward the porpoises. There may be no fish there, but watching them play is peaceful.

Also nearby are the trawlers, reminding us of our heritage and harvesting the wonderful shrimp which abounds here.

Everywhere you look, there are oil and gas structures and commercial marine vessels. We coexist happily. Thank you, gentlemen.
[The prepared statement of Ms. Randolph follows:]

**Statement of Charlotte Randolph, President,
Lafourche Parish, State of Louisiana**

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While oil and gas is often described as a cyclical industry, nothing is more unpredictable than the agriculture and fishing industries. Both succeed and fail at the hands of Mother Nature. Our founding fathers were fishermen and farmers, for we are rich in resources, yet we have come to rely on the more stable oil and gas industry for our economic sustenance.

The shipbuilding industry has also flourished in conjunction with the oil and gas industry. Large and small shipyards dot Bayou Lafourche and the Intracoastal Waterway, building the vessels which work here and throughout the world.

The energy industry does not only support our residents and Lafourche companies. Workers from throughout the region, the state and many other states travel here for shift work, bringing home better pay checks than they could have earned where they live. And perhaps finding a good-paying job here when none were available back home. They also leave behind precious sales taxes which pay for our schools and police department. The parking lots at Port Fourchon and at the offices of the boat companies contain many vehicles with out-of-state license plates. The trucking companies which traverse our highways bring products from many different parts of the United States, providing jobs in the very important support industry.

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And everywhere you look, there are oil and gas structures and commercial marine vessels. We coexist happily.

Mr. GIBBONS. Thank you, Ms. Randolph. That was very eloquently stated, and we certainly appreciate your perspective on life in Louisiana, as well as the benefits the oil and gas industry has provided for the people of Lafourche Parish.

We turn now to Mr. Falgout. Thank you for your hospitality at the Port yesterday and today. We look forward to your testimony. The floor is yours.

**STATEMENT OF TED FALGOUT, EXECUTIVE DIRECTOR,
GREATER LAFOURCHE PORT COMMISSION**

Mr. FALGOUT. Thank you, Mr. Chairman. It is a pleasure to be here and have this opportunity to speak before you today. I guess now my comments are going to pretty well pattern Secretary Angelle and Parish President Randolph, so I guess we are telling the truth because we are all saying it in a little different way, a little different angle.

On behalf of our Commission—and we have several commissioners here. I would like to recognize them. They are elected individuals. In fact, we are the only elected Port commission in this state. Let me recognize several of them here. Our president, Donald Vejay—where are you?

Our Vice President, Jimmy Lafon, I saw him earlier. Harry Cheramie, Treasurer—excuse me, Secretary. Larry Griffin, Member; Chuckie Cheramie; Bo Martin, Commissioner.

Did I miss anybody? I can't see back there very well, but these gentlemen are responsible for the policy and getting the port moving the way it is, and certainly, they play a big part in it and should be recognize for that.

On their behalf, I want to welcome you to the very significant energy port, as has been pointed out, but we could not imagine a more fitting place to have this hearing, one more bountiful in resources than we have here in southern Lafourche Parish. It is quite clear that this country's richest oil and gas resources, by far, are located here in coastal Louisiana and the infrastructure necessary to produce it is here, present and operating, and we do it well with very little fanfare, as you know.

So, this dominant industry co-exists with so many other coastal users. You got to fly over the coast yesterday. Just five minutes from here, you can drive down to the beach, and you will see families crabbing and fishing, you will see commercial shrimpers trawling in the Gulf offshore, you will see recreational fishermen catching speckled trout on the coast. You will see bird watchers. Then you will turn around and see 100 oil and gas production platforms

sitting out in the Gulf of Mexico. And I think that's clear that it doesn't have to be either/or, which is the position of so many states. They can coexist, they work well here, and we are a prime example of that happening.

The economic impact of the oil and gas industry in Louisiana, totals nearly \$100 billion annually. And nowhere is it more prevalent than here in our community. Over the last decade, this region has consistently had some of the lowest unemployment rates in the country. It is not just the direct oil and gas jobs, it is the shipyard workers, the grocery stores, the hardware stores and so on. This industry certainly drives our economy.

The impact of this Port on our community has been nothing short of phenomenal. Since the passage of the Deepwater Royalty Relief Act in 1995, offshore oil and gas activity in this Port has virtually exploded. And I know with 9/11, that is not a good term to use, but certainly, it has been phenomenal. Our market share of the drilling activity in the Gulf of Mexico in this last decade has increased from 12 percent to over 50 percent of the drilling rigs operating in the Gulf of Mexico are being serviced by this facility. As a result of this, the Port has tripled in size, causing an unprecedented boom in construction.

This activity has also had a very favorable impact on the tax base of our parish, as our parish president just indicated. The sales tax district that this Port is in, is roughly about one-third of the parish. It represents 58 percent of the taxes paid in this parish, just to give you some idea of its significance in sales tax. In ad valorem tax, eight of the top ten ad valorem taxpayers are oil-and-gas-related companies and have investments in the Port. The top taxpayer in this parish, which is the Port's largest lessee, Edison Chouest, owns three of the top ten taxpaying companies.

Another example of maybe a not so visible benefit is that our potable water rates were subsidized, because almost a quarter of this parish's water supply is being consumed by the offshore activity in the Gulf of Mexico, and we call that export water. And it brings a premium charge, which results in a reduced household rate. So, actually, our households are subsidized by the offshore oil and gas usage of our potable water.

The historical boom/bust nature of this industry certainly has had its impact. The bumper stickers that say, "Last one out of Morgan City, turn out the lights," hopefully are behind us. As Mr. Readinger indicated, the deepwater Gulf of Mexico remains an expanding frontier and the deep Shelf gas is reviving fields that were thought depleted.

But as we convey to this country the benefits of oil and gas development, this country must recognize the dominant role that coastal Louisiana plays now and what is being demanded of it in the foreseeable future.

An astounding 90 percent of the oil and 80 percent of the natural gas from Federal waters is coming from offshore Louisiana. It was mentioned, in addition to that, with LOOP sitting 18 miles off of our coast handling 15 percent of the nation's foreign oil connected to over 30 percent of the U.S.'s refining capacity is just a huge—roughly 15 to 18 percent of the nation's energy supply has some

correlation to Port Fourchon. If that is not significant, I don't know what is.

Much of the support infrastructure for nearly a third of this country's oil supply is located in the most rapidly deteriorating and vulnerable areas of coastal Louisiana. The recent energy bill included a Coastal Impact Assistance provision, which is a start, and we are very appreciative of that effort. But, certainly, we think it fell short of direct revenue sharing, which we think is necessary.

Until meaningful sharing of revenues directly with offshore-producing states occurs, it is my belief that there will not be enough incentive to attract other states into offshore production.

Even if by some stretch of imagination, other states beginning allowing exploration off their coasts, unless something is done to protect coastal Louisiana and its critical oil and gas infrastructure, this country is on a collision course with an unprecedented energy shortage.

I thank you for this opportunity.

[The prepared statement of Mr. Falgout follows:]

**Statement of Ted M. Falgout, Executive Director,
Greater Lafourche Port Commission**

Mr. Chairman and members of the Committee, my name is Ted Falgout and I have been Port Director of Port Fourchon for 27 years. On behalf of our Commission I want to welcome you here, to this extremely significant energy port. I could not imagine a site more fitting to hold this hearing and one more bountiful in resources.

This country's richest oil and gas resources by far, are located offshore from Louisiana, and therefore the majority of support infrastructure runs through or is dependent upon coastal Louisiana.

This dominant industry co-exists with many other coastal users. Just 5 minutes from here you can drive down to the beach and see dozens of families crabbing and swimming, others bird watching, sport fishermen catching fish, commercial shrimp boats harvesting nature's bounty, and hundreds of oil and gas production platforms. It doesn't have to be one or the other which is the position of many states.

The economic impact of the oil and gas industry in Louisiana totals nearly 100 billion and nowhere is it more prevalent than in our community. Over the last decade, our region has consistently had some of the lowest unemployment rates in the country. It's not just the direct oil and gas jobs; it's the shipyard workers, hardware, grocery stores and so on. This industry drives our entire economy.

The impact of Port Fourchon on our community has been nothing short of phenomenal. Since the Passage of the Deepwater Royalty Relief Act in 1995, activity of Port Fourchon has virtually exploded. The Port has tripled in size causing an unprecedented boom in construction; our market share of drilling activity has increased from 12% to over 50% since 1995.

This activity has also had very favorable impacts on the tax base of our parish. The sales tax district the Port is in, is only about 1/4% of the Parish in size, but generates 58% of the sales tax.

Eight of the top 10 taxpayers are oil and gas related companies that have investments in the Port. The top taxpayer, the Port's largest lessee, Edison Chouest, owns 3 of the top 10 taxpayer companies.

Another example of a not so visible benefit is that our parish enjoys some of the lowest potable water rates in the country, because almost a quarter of our supply is shipped offshore for use. Export water as it is called, brings a premium charge and therefore household rates are subsidized.

The historical boom-bust nature of this industry has had its impacts. The bumper stickers saying "The Last One Out of Morgan City, turn out the lights" are hopefully behind us. The deepwater Gulf of Mexico remains an expanding frontier and deep shelf gas is reviving fields that were thought depleted.

As we convey to the country the benefits of oil and gas development, this country must recognize the dominant role that coastal Louisiana plays now and what is being demanded of it into the foreseeable future.

An astounding 87% of the oil and 80% of the natural gas from federal offshore waters is coming from offshore Louisiana. In addition, LOOP, this nation's only offshore oil port which handles about 15% of this country's foreign oil and is connected

to over 30% of the U.S.'s total refining capacity, sits just 18 miles offshore to Fourchon.

Much of the support infrastructure for nearly one third of this country's oil and gas supply is located in the most rapidly deteriorating and vulnerable areas of the Louisiana coast.

The recent Energy Bill included a Coastal Impact Assistance provision which is a start, but fell short of direct Offshore Revenue Sharing with states. Until meaningful sharing of revenues directly with offshore producing states occurs, it is my belief that there will not be enough incentive to attract other states into offshore production.

Even if by some stretch of the imagination, other states begin allowing exploration off their coast, unless something is done to protect coastal Louisiana and its critical oil and gas infrastructure, this country is on a collision course with an unprecedented energy shortage.

Mr. GIBBONS. Mr. Falgout, thank you very much for your testimony. I can understand much of what you just related to us and realize that Congress itself has fallen short in understanding the real implication of the revenue sharing part of that.

In terms of sharing, I just wish that Louisiana would be willing to share its water with Nevada. We could have a wonderful partnership, and we would be able to subsidize a lot, I'm sure.

Mr. FALGOUT. We can work up an arrangement. Maybe a gallon of water for a pound of rock out of your mines.

Mr. GIBBONS. We have a lot of rock. We could do just that. Thank you very much.

We turn now to the Coalition to Restore Coastal Louisiana, Mr. Mark Davis. Mr. Davis, welcome. We look forward to your testimony. The floor is yours.

**STATEMENT OF MARK DAVIS, EXECUTIVE DIRECTOR,
COALITION TO RESTORE COASTAL LOUISIANA.**

Mr. DAVIS. Thank you, Mr. Chairman. Mr. Jindal. It is a pleasure to be here. Committee members, staff.

The Coalition to Restore Coastal Louisiana, like so much of the things you have encountered here in Louisiana, that is, an unlikely harmony of interests that have come together in ways that sometimes surprise those who don't know our communities or don't know our issues so well.

The Coalition was actually put together in the mid 1990s around the issue of the coastal collapse, the land loss. It was at a time when land loss rates were approaching 40 square miles a year. At that time, outside of parish government, there was not a state program, and there was not a Federal agency that even had the jurisdiction, much less the mandate, to act.

So, we essentially were living with a bucket that the bottom had fallen from. The Coalition was put together by an unlikely assemblage of local landowners, government, academe, environmentalists, faith-based communities, civic organizations, just about anyone with a stake in there still being a south Louisiana and the resources that we produce to be around 50 years hence to be argued over, which is one of our principal sports here, which is arguing with one another in a very, very spirited but congenial way.

I think in the period of time that we have been in operation, we have seen an issue move from denial to the point where, with the energy bill, the water bill, and the history of the Breaux Act, where we have begun to make a commitment. And I think that that is a

commitment that we need to understand is not just about Louisiana, and it is not just about wetlands. It is really about a national heritage, national security, from a transportation, energy, cultural and broader economic standpoint, as well as the homes and lives of literally hundreds of thousands of people.

Louisiana is a place of great beauty, contrast and unexpected harmonies. I think in order to understand the opportunities, the benefits and the constraints that this nation faces in dealing with OCS policy, it is essential to learn well and apply the lessons learned from here in Louisiana. Because the benefits, which I think you have already heard quite a bit about this morning, from OCS development are largely national. And of course, Louisiana is part of that nationally. We share in that.

But a number of the burdens—and, undoubtedly, if you have read any of the Mineral Management Statements, Environmental Impact Statements, if you have read any of the materials developed in the Coastal Restoration Program, it is very clear that there are burdensome impacts.

Secretary Angelle mentioned many of these began in an era when we had different values, different technologies and a different knowledge base. We still live with those impacts because some of them are not limited to the footprint of the original project, they become part of the landscape, and they change with us.

Too frequently, the burdens have not been shared nationally, but have been left to either the state of Louisiana, local communities or future generations to deal with; or, all too frequently, those burdens have been unrecognized or under-recognized by our nation, and accordingly, under-addressed.

Again, I think as you look out on the landscape and you consider the changes that have been experienced in the lifetimes of the people here, not talking about geologic time, you're watching essentially a million acres that has disappeared since 1930. That is a million acres that was someone's tax base, someone's property, it was someone's storm buffer and it was the nursery grounds for the shrimp that you see our trawlers and our crab boats and our oyster fisherman, it is their—it is the underpinning of their economy and our way of life.

As I noted, the existence of these impacts is well documented; but until very recently, and particularly in the energy bill that just passed, there are some provisions in the highway bill that just passed and in the Water Resources Development Act, which is pending, which began to deal with these, I think, on an honest basis. It has already been stated by all the other speakers that these are beginning steps, but they are being recognized, again, in the context not only of a transportation issue, a wetlands issue, or whatever issue, but as part of a broader issue of how we survive here and how we continue to be a vibrant part of this nation's energy supply regarding part of its transportation, and, in my judgment, one of its greatest cultural treasures.

I think this nation truly needs to understand the relationship between oil and gas activity and our coast, and both from the perspective of dealing with the impacts and to ensure the security of future supply. I cannot agree more with Mr. Falgout that, unat-

tended, the crisis in our coast poses an unimaginable threat to our nation's energy supply.

The fact of the matter is, while there are natural components to this, this is largely an engineered collapse. From water resource policy, a number of other decisions that were made frequently at the national level, for good reasons at the time, but they have left us with a legacy of unsustainability.

I think we need to recognize those things and learn from them, both so we can have states like Louisiana continue to play an active part in the energy role, because there are limits to what this state and its communities can continue to provide to this nation without greater assistance. But, also, from the standpoint of encouraging other areas of the country to consider what role they want to play in this.

Unfortunately, too frequently, when the question of expanding OCS activity comes up, neighboring states and the people who influence decisions there go no further than saying, if Louisiana is what we would become, if the legacy of unattended-to burdens is what we will inherit, we are not ready to take that bargain.

And I believe that, again, it is not only a matter of fairness, it is not only a matter of stewardship, it is a matter of survival for this country's independence from an energy standpoint and a matter of what is smart for our futures.

So, we really do commend the Committee for coming here to learn. This is not about blame, it is a matter of learning and taking responsibility and it's about sharing that adequately at all levels. We are delighted to be a resource to you in any way we can.

And again, I think as much as you have learned in this trip, it probably will take several more, and I'm sure that you have any number of people who would be delighted to host you and anyone else you could bring, because it is a place that is almost unimaginable, as to what America would be or what it can be, without the things—energy, culture, food, security—that Louisiana and this topography of Louisiana has supplied. It is truly America's wetlands.

Thank you.

[The prepared statement of Mr. Davis follows:]

**Statement of Mark Davis, Executive Director,
Coalition To Restore Coastal Louisiana**

My name is Mark Davis and I am the executive director of the Coalition to Restore Coastal Louisiana. The Coalition is a non-profit, non-partisan environmental education and advocacy organization formed in the mid 1980s by conservationists, local governments, business, environmentalists, civic and religious organizations who shared a concern about the fate of the greatest coastal wetland and estuarine complex in the 48 contiguous United States and a commitment to the responsible stewardship of those natural treasures.

On behalf of the Coalition to Restore Coastal Louisiana I would like to thank the subcommittee for inviting us to be a part of this field hearing on Outer Continental Shelf oil and gas issues. Clearly, energy issues are getting heightened attention at this time. Decisions about how we define and meet our energy needs will affect the people, environment and economy of this country for years to come. And if past is prelude, they will affect the Gulf of Mexico region—particularly coastal Louisiana and coastal Texas—more than anyplace else. To the extent our experience can help inform those decisions we are pleased to offer it to you.

Let me begin by stating that we appreciate the attention the committee and the Congress have given to the needs of coastal Louisiana in the recently enacted Energy Bill. The four year provision that shares \$1 billion with states that host OCS activity is an important recognition that those state, Louisiana in particular, incur special burdens as a result of those off shore activities that must be acknowl-

edged and addressed. We also recognize that we have a solemn responsibility to make the best use of those funds to address the problems facing our coast. This is particularly true because we believe that the energy policies of this nation need to be rooted in both meeting the nation's energy production and in recognizing and dealing with the full range of costs and impacts that energy production entails.

Simply put, it is our experience that the development of offshore mineral resources has dramatic impacts—environmental, societal, and economic—that need to be considered before our nation decides if and how to expand OCS activity. Clearly, those impacts will be a mixed bag—some good, some not. It is also clear that in many parts of this country concerns about the negative impacts are a significant constraint on the willingness of states and communities to support the expansion of OCS activity. A look at coastal Louisiana will tell anyone that those concerns are not unfounded. Indeed, when one considers the landside impacts associated with supporting the exploration, production and transport of OCS resources (impacts that are in the main under mitigated) the inescapable conclusion one reaches is that if this is how our nation treats the friends of OCS activity, is it any wonder that it doesn't have more? I will go farther and say that the issue is not just what the limits on OCS expansion are, but what are the limits of those states that currently support OCS work to accept and support more activity?

That said, it is clear that our nation needs to develop new energy resources. Our ability to keep pace with our energy demands will be driven by the desire to benefit from continued growth. It will also be challenged by a combination of scarcity, technology, costs and societal constraints. This is really nothing new but that doesn't make matters any easier.

In thinking about what useful role we could play for the subcommittee I recalled that several years ago we were asked to provide advice to the subcommittee on some of the things that constrain OCS development. In reviewing our earlier testimony it seemed that most of what we offered then is still valid today and that it might be useful to revisit that discussion.

Environmental Constraints

We know that there has been much discussion recently about whether oil and gas activity puts a significant stress on the environment and about whether the current state of the art is such that new activity—particularly OCS activity—can be done without significant impacts. From the perspective of coastal Louisiana, we believe the record is clear that the environmental and safety record of the industry has improved greatly since the early days of offshore development. It is also clear that oil and gas activity has had significant negative environmental impacts and that future activity will likely have adverse effects. We make this statement not to cast blame but make the simple—we believe indisputable—point that environmental damage is not a question of “if” but of “where, when, and how much”.

Coastal Louisiana bears witness to those facts. Our coast is laced with evidence of oil and gas activity. Wells, production facilities, supply bases, access canals, pipeline canals, fabrication yards, waste pits, refineries, and other footprints are regular features of the landscape. While there is debate about how much of Louisiana's crisis-level land loss has been due to oil and gas activity, there is no debate over whether it has been a material contributor. Most recently, a study done here at the University of New Orleans with the assistance of the U.S. Army Corps of Engineers and the U.S. Geological Survey concluded that oil and gas activity was responsible for 36% of the land loss in Mississippi River deltaic plain between 1932 and 1990. That is 249,152 acres of land that is now gone.

I do not mean to suggest that all of that land loss is due to OCS activity or that such dramatic impacts are necessarily indicative of what other coastal areas should expect. But it is clear that OCS does contribute, directly and indirectly, to the environmental degradation of this area and that no one should assume that it will not continue in the future or that others would be spared their own version of our experience if they do not plan for those impacts up front.

To confirm this, one need look no further than the Environmental Impact Statements prepared by the Minerals Management Service for lease sales in the Gulf of Mexico. For example, according to the EIS for Lease Sale 181 in the Eastern Planning Area, up to seven new pipelines were projected to transport oil and gas to shore. Even with today's best practices, more than 6,000 acres of wetlands in Southeast Louisiana were expected to be impacted. That is not insignificant. That lease sale was also projected to create the need for three new municipal landfills in coastal areas to accommodate the waste and debris generated by the offshore industry and at least one new waste facility for “nonhazardous oil-field waste. I would like to point out that in the latter case such waste is deemed “nonhazardous” by Congressional fiat rather than by its actual nature, a fact that has not made such facili-

ties popular additions to local landscapes nor has it boosted confidence in the Federal Government's ability to fairly balance benefits and burdens when it comes to energy policy.

The list of other environmental concerns goes on to include brine and produced water discharges, contamination and the introduction of exotic species from ballast water, flaring and airborne releases, and the destruction of coastal environments by the building or expansion of the transportation and support facilities needed to conduct offshore work. And, of course there is the issue of oil spills. It is important to up front and honest about spills. They will happen. Whether due to natural catastrophe, mechanical failure, human error, or other causes spills will occur and our ability to clean them up and remediate their harm is limited at best.

Societal Constraints

In coastal areas, there is a close relationship between the environment and our local cultures and quality of life. Coastal areas have traditionally supported and been defined by local activities such as commercial and sport fishing, hunting and trapping, and beach oriented tourism. In recent years, however, there has been an explosive growth in coastal areas as retirees, "second-home vacationers", casinos and mass-market tourism have taken hold. A desire for a better quality of life and a desire for a "sun and sea" lifestyle often spur these developments. These trends have redefined the economies and cultures of many coastal areas and have taxed the ability of local governments, sanitary and transportation infrastructure, and the natural environment to support this growth. All of this presents a problem for OCS development.

First, as I just mentioned, many coastal areas are expanding so fast that their ability to accommodate the offshore industry may be problematic. Waste handling facilities are already being stretched, transportation arteries are beyond their capacity and areas that were once industrial are now being shifted to other uses. The Gulf coasts of Alabama and Mississippi are prime examples of these trends. There are limits to what these areas can support and offshore development may be constrained by those limits.

Second, and perhaps more importantly, community values and economic development plans for many coastal areas are just not compatible with oil and gas activity. Whether these positions are based on hard science, perceptions, or just rooted in self-serving NIMBYism (not in my backyard) is frankly beside the point. When people feel that their property values, their quality of life, and the environment are about to be diminished it matters, as I am sure all of the Subcommittee members are well aware. There are reasons most of our OCS areas are presently off limits to energy development and those reasons are as much a part of the marketplace of values and costs as are pump prices and our monthly utility bills. I won't pretend to substitute my judgment or values for anyone else's but I will tell you that the belief that OCS development is incompatible with environmental stewardship and the best interests of communities is widespread and it runs deep. That is, and will remain, a constraint. And I would caution that though those objections often find their voice through such Federal laws as the National Environmental Policy Act, Coastal Zone Management Act, the Clean Water Act and the Endangered Species Act it would be a mistake to believe that those laws are the source of societal constraint.

Economic Constraints

The final constraint I will touch on is economic. When OCS energy development is discussed in this country, the proponents usually point to our economy's need for dependable, affordable oil and gas. The economic issue that often goes undiscussed, however, is the cost that states and local governments incur in supporting that industry. Costs that often far exceed any economic benefits produced locally by that activity. I know I don't need to belabor that point for the members of Louisiana's delegation who have recognized that inequity and worked tirelessly to address it as evidenced by the coastal impact assistance provision in the Energy Bill. For the benefit of the other members of the Subcommittee, however, let me put it bluntly—though OCS development may be good economically for the country, it can be a bad deal for the states and communities that serve as its logistical support base. Again, the MMS Environmental Impact Statements can be instructive.

According to the most recent EIS, virtually all waste generated off shore must be disposed of in municipal landfills on shore. Managing those sites and creating new waste sites is left to the locals to deal with. When crew boats erode waterways the problems are left to the locals to live with or fix. When truck traffic from oil-field service ports cause roadways to clog and crumble, it is the state and local governments' problem to deal with. When transient oil-field workers occasionally run afoul

of the law it is local jails that pick up the tab. And when a pipeline or spill damages or destroys a wetland it is the local fishery and tax-base that take the hit. In return for this, the state and local communities, until the recent Energy Bill, did not get a dime from the lease or royalty revenues that flow into the Federal treasury.

Until those economic costs and inequities are understood and addressed in a meaningful and ongoing basis they will to continue to constrain the further development of OCS areas.

Conclusion

We are pleased to have had this opportunity to meet with the subcommittee. We hope your visit here will deepen your appreciation of the extent to which Louisiana and places like Port Fourchon are vital to our nation's well being. We hope you will also understand and appreciate the vital role that wetlands, waters and barrier shorelines play in protecting our nation's energy supply and its natural heritage. In many ways the revenue sharing provisions of the Energy Bill and the proposed multi-billion dollar coastal restoration effort that is currently pending in Congress are efforts to deal with the cost of waiting too long to see the connections between the activities we engage in as nation (and the manner in which we do them) and their consequences. Louisiana has many lessons to teach about how to find, extract and transport energy resources in ways that can only be called inspiring. Louisiana also teaches many lessons about the direct and indirect costs and impacts that all too often have seen us subsidizing our nation's prosperity at the expense of the viability of our natural resources and communities. Learning and applying these lessons should be at the heart of OCS policy.

Mr. GIBBONS. Mr. Davis, thank you very much for your—not only your passion and commitment, but your dedication to this project of restoring Louisiana's coastline. Certainly, I have learned a great deal from not only your remarks, but from the visual tour we had over the last couple of days of what is happening here. And we will be much better prepared to deal with this issue, and because of your work, the Coalition's work, that you have done as well as the testimony.

Let me state that we have just a little over, or just about an hour of time left for this hearing. And we do have a second panel that we want to get to. We have allowed for some testimonies to run a little over the five-minute mark, and that does cut into our questions.

But as I listened from each and every one of your testimonies, you answered many of the questions I would have asked. But you also painted a picture. You painted a picture that is so vivid and so clear that not many questions are needed to be asked to understand the problems and understand the benefits and the values that are going on right here to our country.

So I'm not going to ask any questions, but I do want to say, and this will hold for the other panel as well when we bring them up, that the Committee may have some questions that we would like to submit, and we will ask that you respond to those and return them to the Committee as we go forward, probably within ten days.

And as for the rest of the audience, if there are statements that the rest of the audience wants to add for the congressional record, comments that you think are important that were not made in this hearing, we certainly will accept those comments for the record, and they should be submitted to the Committee within ten days. We will have an address here if you want to check at the end of the hearing on where to send those comments to, as well.

I'm going to ask Mr. Jindal if he has any questions of this panel briefly before we thank them.

Mr. JINDAL. Thank you, Mr. Chairman. I will be very brief, given the time considerations. I do want to ask three very targeted questions to elaborate on some of the points that were made.

I will start with Ted. I had the privilege of coming here a few weeks ago, and one of the things I would like you to elaborate on is, our frustration that, despite all the evidence we have heard today about the critical role that Fourchon plays in our nation's energy needs, that we have not made the top list of 66 ports that the Department of Homeland Security has listed as the nation's most critical ports.

I have told you since then, I have talked to the Secretary in an open hearing, and he is committed to reevaluating that decision. If you could briefly tell us, why is it so important for that Port to make that list and how you might be able to use some of those additional resources if they were made available to you in terms of homeland security.

Mr. FALGOUT. Thank you, Congressman. Most certainly, we feel that there is some gap somewhere that would—the ability to measure ports and the significance to this nation's security, would let a significant entry port, such as Port Fourchon, not fall on the radar screen. When we saw that, we, again, appreciate your help in bringing that to light of the persons in charge in D.C. But, certainly, it was the way they chose to measure ports that did not fit.

And again, it is all part of this country not fully understanding what it takes to turn your lights on and the role that an energy port like this plays. And they just had no way of measuring the significance. They use tonnage from the Corps of Engineer's Waterborne Commerce Statistics, which does not capture this type of port's activity as one of the major parameters for choosing ports. And then population. Certainly, we do not have a large population here. Very few people live in Port Fourchon. But when you measure 18 percent of the nation's energy supply and what that might cause to this country if, in fact, we lose some portion of our capability to keep this economic engine running, it is mind-boggling. And certainly, we, through your help, we hope to correct this.

In earlier port security grants, we did qualify, we were successful, we have gotten over \$1.3 million to do security camera systems and things that will start to make this port more secure. But, certainly, to be left out of this last round was somewhat disappointing, and through your help, we will not let that happen again.

Mr. JINDAL. Thank you. My second question that I direct, again, both to Ted and Scott, I was struck by the fact that, Ted, you talked about the Deepwater Royalty Relief Act in 1995; Scott, you talked about Federal tax incentives as well to encourage drilling.

The reason I was struck by this is Chairman Pombo asked me to actually go to the Floor and help to explain and defend the provisions in that energy bill that's been passed that allows tax relief from deepwater production. I was struck by some of the comments in opposition about it because, to me, it seems just commonsensical that it will give companies a reasonable incentive that will actually generate not only more production, but more revenue for the Federal government. It's a win/win. It generates more energy for our country, more revenue to the Federal government.

And I would just like to go through, briefly, a comment you had that struck me, that both of you talked about: The need for additional incentives.

Can you both briefly comment on that need?

Mr. FALGOUT. While I have the microphone in front of me, I'll just be brief, in that, again, I think it is just part of this misunderstanding of what it takes to bring energy to the gas pump.

And another thing is, as we explained in the tour yesterday, even with \$66 oil prices, we have companies sending drilling rigs from the U.S. Gulf to Saudi Arabia for long-term contracts. If we don't make the Gulf as attractive as we can be on American waters, then those rigs, there is only a finite amount of rigs, and they will be drilling in other places in this world, and it will increase our dependency on foreign oil.

So those are some of the things we need to keep in mind when we start to weigh these kinds of incentives. Yeah, nobody says, "I don't want to give it to big oil, they're making gobs of money, why do we want to give them an incentive?" Well, they can make gobs of money in Saudi Arabia as well.

Mr. ANGELLE. Thank you. I certainly would agree with that. I think we now, certainly, in Louisiana operate in my department under a fundamental principal that companies have a choice where they wish to spend their exploration dollars. This is not my grandfather's country where Exxon and Texaco were drilling and developing resources just in America. Companies cannot only be here, but they can be anywhere, and unless we are as productive as a competitor, then we see some of those resources, obviously, going to other areas.

There are a couple of examples. Section 29 of the IRS code that I mentioned, which gave me tax credit for production of unconventional natural gas from unconventional resources, had a dramatic impact steering investment dollars into those parts of the country where those resources were found—and a dramatic increase in the natural gas reserves from those particular types of nonconventional resources.

So I think everything has to be on the table when you try to develop a broad-based energy policy, and we need to fundamentally understand that companies have choices. And I have always said that we're not competing in my little world, we are competing with Texas and Oklahoma where people say, how can we—because in this particular state, working with Senator Dupre and Representative Petrie and a host of other folks, we were able to do an incentive program this past session for deep stuff.

And while oil may be trading at \$66 or \$65 today in Louisiana, it is also trading at \$65 in Texas and Oklahoma and Wyoming. So, we, I think, in Louisiana, understand that companies have choices, and I think that America needs to understand that companies have choices.

Mr. JINDAL. This energy bill that we just passed has some incentives also not only for deepwater, but for shallow water. Some of these wells have not been active in recent years. So, thank you both for your testimony.

My last question I will ask to Mark: I was struck in your comments about how other states that currently are not allowing drill-

ing may be looking at Louisiana's example and saying, Let's see how they're being treated. I know that when I offered the amendment in the House to allow Louisiana to participate in some of the Federal offshore revenues to help us restore our coast, some of the most cynical opposition came from people that said, "Well, we're worried if we start treating Louisiana better, that might induce the other states to allow drilling."

My response was, why would we want—first of all, it's a question of fairness and equity to Louisiana's coast; but, second, why would we want to prevent other states from making their only reasonable decisions?

I would like to expand that I was very struck by your comments that as we have this debate about drilling off the coast of other states, how they may be looking at Louisiana's coast and learning examples of how we are being treated currently by the Federal government.

Mr. DAVIS. Well, I think it's been a very enlightening experience, since I don't live in those other states, so it's very difficult for me to understand everything that drives them. But it is very clear that when one considers the legacy sites that we have, in particular, and when one reads the environmental impact statements that talk about how many new landfills you are going to need, what the impact on transportation infrastructure is going to be, all of these things, and there is frequently not a clear vehicle being presented to the state and local governments of, "Well, who is going to pay for this," or, "Is this going to be out-of-state people coming through your state." And whenever the statements been made that, "We have figured out how to do this without impacts," I have actually had calls from congressional staff members from other states saying, "Is that true?" And the answer is, "Of course it is not true that you can do these things without impacts."

So, the real question is how you manage it and what benefits you are seeking to get. Needless to say, if you are worried only about your state being induced to open itself up to irresponsible activity, you have a more fundamental problem than an incentive. You have essentially an accountability and governance issue. I can't speak to what is happening in those states.

But, on the other side, I would point out that I have been invited to at least three forums in other states where coastal restoration activities of one sort or other—and, again, restoration is normally dealing with the impacts of decisions that were made over generations.

Again, often, this was noted by the secretary, before you had environmental laws, before you had a number of the things that, you know, affect how we do business today. And sometimes, it is a mitigation program for, you know, previous activities and previous generation's decisions.

But Louisiana is now being looked to as a model as to how do you come to terms with these things and how do you put environment and how do you put culture and how do you put economics on the table and try to come up with an approach which doesn't begin from the supposition that it is either/or. That you must tradeoff your environmental heritage for economic prosperity, or you must sacrifice in a viable economy if you want to have a clean

environment. Those are false choices, in our judgment. But I think, unless you create the vehicles for a better outcome, unfortunately, those are the directions that people go.

Mr. JINDAL. Thank you, Mark. And I thank each of the panelists here for your testimony. I think you are making a very important point for those of us who are interested in seeing reasonable production throughout our country. I think how we respect and treat Louisiana's coast can serve as a useful map moving forward. I want to thank the panelists for sharing so much valuable information with us.

Mr. GIBBONS. Before the panel leaves, I also want to thank you. I didn't get a chance to ask a question, but I do want to ask one question that I don't want an answer from each of you today, but I will submit a follow-up question. And that is: What should be the dollar amount; how should the percentage be allocated; what Federal requirements, Federal process should be established in order to achieve an equal and fair revenue sharing amount?

Think about that question over the next few days, few hours; and if you will, submit it back to us, what your estimate should be, then that would be greatly appreciated.

We have held you here now for the requisite literally hour and a half, and we have had to cut into the other panel's time; but I did want to thank you all for coming out today. It is a Saturday, I know you are busy, you are making the world go around, but we wanted to thank you.

The first panel is excused, and we will call up our second panel today.

Mr. GIBBONS. We want to welcome our second panel to our hearing today. We apologize for taking a little longer than we should have on the first panel, but everybody's testimony is important, and we are here to listen.

Our second panel consists of Mr. Greg Guidry, Exploration Manager for Shell Exploration and Production Company; Mr. Hank Danos, Chief Executive Officer for Danos & Curole Marine Contractors; Mr. Clifford Smith, President and CEO of T. Baker Smith, Inc.; Mr. Dan Borné, Louisiana Chemical Association; and Mr. Allen Walker, Gulf Productions.

We will begin with Mr. Guidry. Welcome. The floor is yours. We look forward to your testimony.

**STATEMENT OF GREG GUIDRY, EXPLORATION MANAGER,
SHELL EXPLORATION AND PRODUCTION COMPANY**

Mr. GUIDRY. Thank you. Thank you, Chairman Gibbons, Congressman Jindal and Chief of Staff O'Shea.

My name is Greg Guidry, and I am currently serving as asset manager in the Gulf of Mexico for Shell. I just recently moved from exploration manager. So that the noted—I'm covering both ends of the life cycle there in terms of the EP life cycle.

I was born and raised in southern Louisiana. My family has been here for several generations. I want to thank you for inviting me to testify today; and it is certainly a topic that is important to me personally, not so much—you know, part of it, I work for Shell, but also, for my family and the generations that I have, and the community.

Shell's presence in Louisiana goes back to 1916. We have over 4,000 full-time employees and 2,700 pensioners, actually, in the state. Shell operates two huge refineries and numerous other facilities in this state.

The Gulf of Mexico is a very significant petroleum province for Shell, and it has been for years. We currently operate gross production of 450,000 barrels a day and 1.4 billion cubic feet of gas in the Gulf of Mexico. On the order of a pretty good size OPEC country, actually.

Shell pioneered exploration in the deepwaters of the Gulf of Mexico. We continue to explore frontiers in the Gulf of Mexico. These plays are very difficult to explore for. We have been and we continue to use technology in order to crack these plays. Just to give you an example of the timeframe, the production that we enjoy today in the deepwater of the Gulf of Mexico is a result of exploration activity that happened 25 years ago. Some of the initial discoveries made by Shell in the deepwater.

Shell has also committed itself to enhancing the environment of Louisiana and the Gulf Coast. We provided seed money for the America's Wetland Campaign. We sponsor the Shell Coastal Environmental Modeling Laboratory at LSU. And through the Shell Marine Habitat Program, we are partnering with the National Fish and Wildlife Foundation to help nearly 100 organizations conserve and restore marine habitat throughout the Gulf Coast region.

Shell believes that Louisiana and the U.S. benefit greatly from offshore oil and gas exploration and production. At \$6 billion annually, oil and gas production from the OCS and Federal lands is second only to the IRS in terms of Federal revenue. According to the MMS, offshore and gas production directly provides jobs for more than 40,000.

While the OCS is providing sound benefits for the nation's economy and for the domestic supply, we face a number of real challenges going forward. Decline rates in the Gulf of Mexico; access to new OCS resources; and access to human resources and technology are all great challenges.

Our decline rates in the deepwater Gulf are steep. Decline rates on a given field can range on the order of 30 percent per year. Overall decline rate, just in gas production in the deepwater from 2003 to 2004, was on the order of 10 percent. To offset these rapid declines, industry must develop technologies and efficiencies to maximize recovery and production, but we also must have access to additional resources.

In order to meet our long-term challenges, Shell believes that the energy industry must do a better job of helping the American public understand our industry and the contribution we make to the economy and society. A theme that resonated in Panel 1, for sure.

We believe that in order to change the political will, we need to better educate the public about the oil and gas industry and energy's impact on our lives. We also need access to more resources and hope that there will be new opportunities in the OCS emerging from the next MMS five-year plan.

We encourage Congress to take an active role in advocating greater access to offshore resources during the five-year plan process, which should begin very shortly. People are our greatest

resource that we have in the oil and gas industry. Many of the professions in our industry require highly technical backgrounds in science and engineering, much like the space program.

The number of U.S. students seeking degrees in these disciplines have fallen drastically over the last couple of decades. Geoscience, for example. And fewer are pursuing degrees in engineering and science and are applying them, or choosing to apply them, to our industry. That, coupled with an aging workforce and impending retirements, are resulting in what we now refer to in industry as the "great crew change."

We encourage the Committee to continue to be advocates for addressing workforce development, as it did through the language in the energy bill. In the meantime, Shell and industry as a whole are working to utilize our resources to attract new talent to this industry. We want our efforts to benefit the community as well.

As an example, we are making a number of things happen at our Robert Training and Conference Center in Robert, Louisiana, which is focused on operations training. And we are actually building programs in partnership with Louisiana State University and with some of the other mechanisms in the community to leverage that, not just for training folks that Shell needs, but also training folks that the industry needs.

While states and local communities benefit from OCS oil and gas production, there are impacts on oil and gas development that communities must address. Shell believes that, historically, revenues from OCS oil and gas production have not been adequately distributed to states and impacted local communities. I think that is clear from the conversation this morning. These monies could be used for infrastructure projects, such as the Louisiana one here at Port Fourchon. Shell has some ideas about revenue sharing that we can discuss in detail during the questioning, or we will be happy to advance some of those thoughts over the next couple of days.

Thank you again for allowing me to testify. I look forward to addressing any questions.

[The prepared statement of Mr. Guidry follows:]

**Statement of Greg Guidry,
Shell Exploration & Production Company**

Good Morning. My name is Greg Guidry. I am an Asset Manager for the Gulf of Mexico for Shell Exploration and Production Company. I was born and raised in Southern Louisiana—in Abbeville—and my family has been here for several generations. My career has been largely focused on oil and gas exploration and production in the Gulf of Mexico and along the Gulf Coast. I want to thank Chairman Gibbons and Congressman Jindal for inviting me to testify today on "The Benefits of Offshore Oil and Gas Development." It is a topic that is of great importance to Shell, to my family and my community.

Shell's presence in Louisiana goes back to 1916. We have over 4,000 full time employees in the state, many of whom work on offshore oil and gas development. Additionally, we have over 2,700 pensioners in Louisiana. Shell operates two refineries, two chemical plants, 459 retail stations, a major oil products terminal and numerous other facilities in the state.

The Gulf of Mexico is a significant petroleum province for Shell, one that we have operated in for more than five decades. These operations provide more than 80 percent of our oil and gas production in the U.S. Our net equity daily production in the Gulf of Mexico averages about 267,000 barrels of oil and 1.1 billion cubic feet of natural gas. We operate gross production of 450,000 barrels of oil and 1.4 billion cubic feet of natural gas per day. We hold an interest in approximately 723 federal offshore leases, more than 80 percent of which are in deep water.

Our strategy is to fully develop existing assets, aggressively explore for new material oil and gas opportunities in established areas, and continue to develop new emerging areas using sound geological work combined with leading edge technology.

Shell pioneered exploration in the deep waters of the Gulf of Mexico and used this deepwater strategy to find major fields in the Gulf such as Mars and Auger. Recently Shell has pioneered new plays with a hub-class discovery at Great White. We continue to explore in frontier areas of the Gulf of Mexico. These plays are very difficult to explore and produce. They are inherently high-risk with objectives that are either in ultra-deep water or deep formations on the shelf. They often involve high temperatures and high pressures. These areas are often geologically challenging and are very difficult to interpret using seismic data. To explore and produce in these areas we must use cutting edge technology. We plan to continue aggressively exploring for large volume, high-reward prospects in both the established plays and the new emerging plays.

Outside of the Gulf of Mexico, Shell has recently demonstrated a commitment to U.S. Outer-Continental Shelf frontier areas by being awarded 84 leases in the Alaska Beaufort Sea. Offshore Alaska presents a number of unique challenges, but we believe that, like the frontier areas of the Gulf of Mexico, there are major hydrocarbon sources there to be explored and produced.

I would like to thank Chairman Gibbons for his hard work on numerous excellent provisions that were included in the Energy Bill signed into law this week by President Bush. I want to especially thank him for his work on the inclusion of the Oil Shale Leasing provision, which may lead the way to the development of another frontier energy resource in the Rockies.

Protecting Coastal Environments

Shell has also committed itself to enhancing the environment of Louisiana and the Gulf Coast, both offshore and onshore. We are vigorously pursuing this through two primary initiatives. The Louisiana Wetlands Initiative and the Shell Marine Habitat Program.

To address the ongoing coastal erosion and disappearance of critical coastal wetlands and wildlife habitat, Shell has taken a leadership role in public education and awareness about the issue. We are partnering with well-known NGOs, such as Ducks Unlimited, to sponsor wetlands restoration projects throughout Louisiana. Shell is also working with state and government agencies as world sponsor of the America's Wetland Campaign and serves on the Louisiana Governor's Coastal Advisory Commission. We are sole sponsor of the Shell Coastal Modeling Laboratory in the LSU School of the Coast and Environment. This laboratory is dedicated to understanding coastal loss and the effectiveness of mitigation measures.

Through the Shell Marine Habitat Program we are partnering with the National Fish and Wildlife Foundation to help nearly 100 organizations conserve and restore marine habitat throughout the Gulf Coast Region. Through this program Shell has spend \$5 million as part of a total of \$17 million donated for marine habitat conservation activities improving more than 160,000 acres of habitat and protecting more than 31,000 acres of key conservation lands. Projects include Ridley turtle habitat enhancement, oyster reef restoration, and sea grass recovery.

Additionally, Shell is a supporter of the National Marine Sanctuary Foundation. Through this program we have helped support and preserve important marine habitat. We have been especially supportive of the Flower Garden Banks in the Gulf of Mexico. One of the most beautiful and healthy coral reefs in the world, the Flower Garden Banks has existed for thousands of years and has thrived the last 4 decades with oil and gas production on its perimeter.

Shell is committed to sustainable development wherever we operate and we will continue to support habitat enhancement, education and research.

Benefits of OCS Activities

Many of the witnesses here today are speaking about the benefits of OCS activities on their businesses and communities. Shell believes that Louisiana and the U.S. as a whole benefit greatly from oil and gas exploration and production. At \$6 billion annually, oil and gas production on the OCS and Federal lands is second only to the IRS as a source of federal revenue. According to the Louisiana Mid-Continent Oil and Gas Association, offshore oil and gas production directly provides jobs for more than 21,000 employees, 16,725 of whom are Louisiana residents. The estimated payroll is \$1.2 billion averaging \$74,000 per employee, some \$10,000 greater than the national average salary. OCS producers pay about \$6 billion per year to vendors and contractors to support those activities. In Louisiana the share is more than \$3.7 billion. Those vendors employ an additional 55,376 people in Louisiana alone.

While the OCS is providing sound benefits for the nation's economy and for domestic supply we face a number of real challenges going forward. In order for future generations to continue to benefit from OCS energy production, we need to face some real challenges: decline in Gulf of Mexico production, access to new OCS resources and access to human resources and technology.

Decline in Gulf of Mexico Production

High decline rates in the Gulf of Mexico are not a new phenomenon; they have been a feature of the Gulf subsurface characteristics since offshore production began. Production decline rates in the deepwater Gulf can be steep and they require operators to be aggressive in leasing and to have high drilling success rates in order to maintain, let alone increase, their production. To offset these rapid declines, industry must develop technologies and efficiencies to maximize recovery and production. The U.S. government must provide access to new areas in the OCS. Policy makers cannot ignore the potential decline of the Gulf of Mexico production.

Access to OCS Resources

Access to oil and gas resources on the OCS remains a significant problem for future domestic production. Congressional moratoria place virtually all of the Atlantic and Pacific OCS in the lower 48 states off-limits for oil and gas production. Since 1982, congressional moratoria and administrative withdrawals have grown to cover 266.5 million acres. Today about 85 percent of the offshore area off the lower 48 states is off-limits to natural gas and oil development, areas that according to the National Petroleum Council contain trillions of cubic feet of recoverable natural gas resources. At the same time, as fields mature in traditional producing basins a greater percentage of future U.S. oil and gas production will need to come from the Federal OCS and Federal lands onshore.

In order to meet our long-term challenges we need to develop long-term goals for changing public perception and political will. Shell believes that the energy industry can do a much better job of helping the American public understand our industry and the contribution we make to the economy and society. We believe that to change political will we need to better educate the public about the oil and gas industry and energy's impact on our lives. We look forward to suggestions from Congress on how to implement and sustain a public energy education program.

While an education program can help us meet some long-term access challenges, in the short term we hope we may have an opportunity for greater access on the OCS. In the coming days Minerals Management Service (MMS) is expected to publish its scoping notice for the next Five-Year Plan. This important process will determine where oil and gas leases may take place on the OCS from 2007 through 2012. Shell is hopeful that the next Five-Year Plan will make additional offshore acreage available for leasing provided that appropriate environmental regulations are implemented to ensure that industry's disturbance is minimized and that biological resources and the environment are protected.

The Five-Year Plan process involves public comment. We encourage the Subcommittee on Energy and Mineral Resources and Congress as a whole to take an active role in advocating greater access to offshore resources during the Five-Year Plan process. We also hope that consuming industries, our partners in the service and supply sector, states, communities and NGO's can work together to find common ground for opening selected areas in the OCS. If we continue to not allow growth in the OCS for new leasing opportunities, our domestic oil and gas supply is at risk.

Meeting the Challenge of the Major Crew Change Ahead

People are the greatest resource we have in the oil and gas industry. It takes a lot of great minds from a number of disciplines to meet the challenge of finding oil and gas on the OCS. Many of the professions in our industry require a highly technical background in science and engineering. The number of U.S. students seeking degrees in these disciplines has fallen drastically over the past couple of decades. And fewer of those pursuing degrees in engineering and science are applying them to the oil and gas industry. Volatility in the exploration and production sectors during the past couple of decades made our business less attractive for many young people.

Between 1985 and 1998, enrollment in undergraduate petroleum engineering fell 77% and geoscience degree programs fell 60%. Despite the availability of well-paying jobs enrollment continues to decline and competition for these graduates is fierce. This has a direct impact on our industry's ability to expand and meet our nation's future energy needs. The average age of employees in the exploration and production industry is 47 to 50, with many long-term employees expected to retire

at 55. As a result, industry is now facing what we refer to as “The Great Crew Change”.

Shell would like to commend the House Resources Committee for holding a hearing last year on this important topic. We also appreciate that the Energy Bill mandates a study by the National Academy of Sciences and the Interior Secretary on the availability of skilled workers to meet America’s future energy needs. We encourage the Committee to continue to be advocates for addressing workforce development.

In the meantime, Shell and the industry as a whole are working to utilize our resources to attract new talent to our industry. Specifically, Shell is:

- Deepening our internal talent pool through additional training and challenging assignments to ready younger workers to step up as senior workers retire;
- Broadening our access to talent through diversity initiatives; and
- Feeding the talent pipeline through support of math and science programs.

We want our efforts to benefit the community as well. Through our Robert Training and Conference Center, in Robert, LA, we are not only training our own employees for challenges in the field, we have opened up our facility to train and educate university students and spark their interest in careers in the oil and gas industry. We are working collaboratively with academia, local and state government in Louisiana, and Greater New Orleans, Inc.—a public/private partnership charged with spearheading economic development Greater New Orleans region—to develop a Center for Petroleum Workforce Development in Louisiana to help address the crew change challenge.

By training, recruiting and employing a skilled workforce, we will have the human talent needed to develop and implement the technology needed to address the challenges we will face in the offshore frontiers.

Revenue Sharing

While states and local communities benefit from jobs, taxes and other sources of revenue that result from OCS oil and gas production, there are impacts from oil and gas development that communities must address. Infrastructure, such as ports, roads and bridges are needed to support industrial development. Environmental mitigation resulting from infrastructure development is another impact states and communities must face. Shell believes that historically revenues from OCS oil and gas production have not been adequately distributed to states and impacted communities.

Currently, states receive oil and gas revenues for oil and gas production out three miles off their coasts—production in state waters. Additionally, states receive a 27% cut of revenues in the so-called 8(G) zone, three to six miles off their coasts. Revenues from oil and gas production beyond six miles only go to the Federal government. Despite the fact that coastal states may be impacted by production beyond six miles, under the law, states are not able to directly receive financial benefits for offshore oil and gas production. Money from oil and gas production offshore and onshore should be made available to state and impacted communities. These monies could be used to infrastructure projects such as LA 1, a vital link between Port Fourchon and the rest of Louisiana and a vital corridor for the oil and gas industry.

The energy bill signed by the President earlier this week contained language that allocates federal oil and gas revenues to states like Louisiana to support a “Coastal Impact Assistance Program”. Shell appreciates the role that the Louisiana delegation played in making this concept the law. We believe that it is an important first step in the right direction. Shell supports going a step further by providing all states and local communities with a fair percentage of offshore production revenue from bonus bid, rents and royalties. Additionally, MMS and state agencies are decreasing budgets to meet despite increased demand to perform environmental work, monitoring, mitigation, and enforcement. We believe that OCS revenues—bonuses, rentals and royalties—should be disbursed directly to meet these requirements.

In total, Shell supports changes to current law that would:

- Provide direct OCS revenues from Federal bonuses, rentals and royalties to states and local communities affected by offshore oil and gas development;
- Provide direct OCS revenues from Federal bonuses, rentals and royalties to MMS for environmental work, for monitoring, mitigation, and enforcement; and
- Provide direct OCS revenues from Federal bonuses, rentals and royalties to a Marine Mammal and Coastal Wildlife Habitat Studies and Enhancement Fund to be utilized by state marine and wildlife management agencies and contractors as needed.

This same sort of initiative should also apply to the onshore oil and gas royalty stream. We look forward to working with Congress to support these concepts through legislation.

Thank you again for allowing me to testify. I look forward to answering any questions you may have.

Mr. GIBBONS. Mr. Guidry, thank very much. I think it is important for all of us to hear that the industry is quite supportive of the efforts of the people of Louisiana to supply energy to the nation, and also, to solve some of the impact problems that occur with that.

It is also refreshing to have an industry who works hand in hand with the people of Louisiana on some of these issues as well. Your commitment is appreciated.

We turn now to Mr. Danos. Thank you very much for being here, Mr. Danos. We look forward to your testimony. The floor is yours.

**STATEMENT OF HANK DANOS, CHIEF EXECUTIVE OFFICER,
DANOS & CUROLE MARINE CONTRACTORS**

Mr. DANOS. Thank you, Chairman Gibbons. Danos & Curole is a Louisiana company, and more than that, we are a Lafourche Parish company. As we would say it, we are just a few miles up the bayou from here.

We are a company that services and provides services to the energy-related business by providing contract personnel, marine liftboat services, offshore construction crews, shop fabrication work to the oil and gas industry around the globe.

I'm very proud to represent Danos & Curole today. But I'm also a member of several prominent trade organizations that have an interest in what we are doing today. And one is the National Ocean Industries Association, NOAA, which is a national group representing all facets of our industry. I am also part of the executive subcommittee of OOC, which is the Offshore Operators Committee. I am a board member of Offshore Service—Marine Service Association, OMSA, and recent past chairman of Louisiana Association of Business and Industry. So I'm proud of the groups I speak for and represent today.

Chairman Gibbons, Congressman Jindal and staff members, again, thank you for the opportunity to speak.

Clearly, we are in an era of insecure and expensive oil and gas imports. Expanding domestic oil and gas supplies is critical to our economy and our energy security. It remains a high priority for our country. We recognize that there is a growing consensus amongst policymakers that we can only enhance our energy security if we move forward on regulatory reform, gain greater access to public land, and implement commonsense environmental standards.

I can speak with some authority on these issues because Danos & Curole has been in operation for over 50 years in the oil and gas industry. As an oil field industry leader, we feel that we are a flexible, responsible, full-service contractor with a high standard of excellence. Ask any of our more than 900 employees or our many customers, and they will say that we are a company committed to safety, environmental protection, training and quality development of our personnel.

The service and supply companies are the backbone of the oil and gas industry. There are hundreds of companies here in Louisiana and thousands of employees who earn high-end wages. In light of the fact, a single paycheck can turn over seven times, exchange

hands seven times in any community. And literally, every faction of our communities are affected by those paychecks. Those paychecks, obviously, are affected by the extraction of oil and gas.

Recent developments in offshore oil and gas exploration and development in the Gulf of Mexico, as you have seen and heard, brought new opportunities for Port Fourchon and the communities around Port Fourchon. As other offshore service companies are attracted to the area, additional jobs and additional opportunities and additional economic spinoff will occur.

The oil and gas industry plays an important part in Louisiana, and the only way the service sector can effectively contribute to a continuous and adequate supply of oil and natural gas is through an uninterrupted access to exploration and production.

Many service companies have felt the devastation of the past boom-and-bust cycles in our industry. Downturns and prolonged interruptions of production cause serious impact to the workforce. Thousands of former oil and gas worker employees have left the industry to seek more stable employment elsewhere. Consequently, we are seeing many out-of-state workers. Many come to Louisiana on a rotation basis and take their paychecks back to other states.

Just as rural America has seen the economic devastation and social devastation of small communities that were dependent upon certain industries, such as the lumber and timber industry and others, we too depend on guaranteed, uninterrupted production of hydrocarbons to ensure stability and general health, safety and welfare for our communities. Without assurance that new exploration and production will continue through timely and consistent permitting, we lose the confidence of investors, whose capital investment should drive the economy of that needed infrastructure. A disruption in supply and demand causes a domino effect that ripples from service companies to grocery stores to gas stations, hospitals, to municipalities, and on and on it goes.

The equation is simple. The citizens of the United States demand energy. Louisiana has numerous forms of energy supply. Louisiana has people who are willing to risk their capital and devote their own working energy to responsibly meet the national demand. Leadership and implementation from Federal agencies, based upon fairness and facts, are urgently needed to respond to this demand.

We, the service men and women of the industry are willing, ready and able to respond. We urge Congress to assist and encourage the Federal agencies to do likewise.

In closing, again, I would like to thank the Subcommittee and the Congressmen for being here and allowing us to testify.

[The prepared statement of Mr. Danos follows:]

**Statement of Hank Danos, Chief Executive Officer,
Danos & Curole Marine Contractors**

I am Hank Danos, Chief Executive Officer of Danos & Curole Marine Contractors located in Larose, LA. We are a company that serves energy-related businesses by providing skilled contract personnel, marine liftboat service, offshore construction crews, and shop fabrication service to offshore oil and gas customers around the globe.

I am very proud to represent Danos & Curole today. I am also pleased to represent the National Ocean Industries Association, the only national trade association representing all facets of the domestic offshore petroleum and related industries. I also serve on the Board of directors of the Offshore Marine Service Association (OSMA) and am also on the executive subcommittee of the Offshore Operators

Committee (OOC) I want to thank Chairman Gibbons and the entire Subcommittee for holding this hearing on the importance of the offshore oil and gas industry.

Clearly, we are now in an era of insecure and expensive oil and gas imports. Expanding domestic oil and gas supplies is critical to our economy and our energy security—it remains a high priority for the country. We also recognize that there is a growing consensus among policy makers that we can only enhance our energy security if we move forward on regulatory reform, gain greater access to public lands, and implement common sense environmental standards.

We can speak with some authority on these issues because Danos & Curolle has been in operation for over 50 years in the oil and gas industry. As a leader in the oilfield industry, we are a flexible, responsive full-service contractor with a high standard of excellence. Ask any of our more than 900 employees or any one of our customers and they'll say we are a company committed to safety, training and the quality development of our personnel.

The service and supply companies are the backbone of the oil and gas industry. There are over 100 such companies in Louisiana, representing thousands of employees earning high-end wages. In light of the fact that a single paycheck changes hands 7 times throughout a community, literally every faction of our society and economy is affected by the extraction and production of oil and gas.

Recent developments in offshore oil and gas exploration and development in the Gulf of Mexico have brought new economic growth to Port Fourchon and the surrounding community. As other offshore service companies are attracted to the area, additional job opportunities and economic spin-offs will occur.

The oil and gas industry plays an important role in the Louisiana economy, and the only way that the service sector can effectively contribute to a continuous and adequate supply of oil and natural gas is through new and uninterrupted access to exploration and production. Many service companies have felt the devastation of past boom and bust cycles of oil & gas development. Down turns and prolonged interruptions of production cause serious impacts to the workforce—thousands of former oil and gas employees have left the industry to seek more stable employment elsewhere. Consequently, we are seeing many out-of-state workers. Many come to Louisiana to work a rotation, and go back home to Texas, Oklahoma or other areas, without moving their families to Louisiana.

Just as rural America has seen the socioeconomic devastation of small communities that were dependent on timber harvest and sawmills, we too depend on guaranteed, uninterrupted production of hydrocarbons to ensure the stability and general health, safety and welfare of our community. Without assurance that new exploration and production will continue through timely and consistent permitting, we lose the confidence of investors whose capitol investments drive the development of needed infrastructure. A disruption in supply and demand causes a domino effect that ripples from the service company to the grocery store, to the gas station, to the hospital, to municipalities and local governments, etc. etc.

The equation is simple: the citizens of the U.S. demand energy, Louisiana has numerous forms of energy reserves, Louisiana also has people who are willing to risk their capital and devote their own working energy to responsibly meet the national demand. Leadership and implementation from federal agencies, based upon fairness and facts are urgently needed to respond to this demand. We, the service men and women for this industry are ready, willing and able. We urge the Congress to assist and encourage the federal agencies.

In closing, I would like to again thank the Subcommittee for the opportunity to comment on these critical issues.

Thank you.

Mr. GIBBONS. Mr. Danos, I can see there is great pride in not just your company, but your history here in Louisiana and your service to this industry and how it has affected the end result, which many people don't understand and don't see directly up front, because your name isn't Shell; it isn't Chevron; it is Danos & Curolle. And a lot of times, you are part of that unsung hero group that helps out in ever so small ways that makes it all work. Thank you for your contribution. Thank you for being here.

We turn now to Mr. Clifford Smith from T. Baker Smith. Mr. Smith, welcome. I can at least pronounce your name.

**STATEMENT OF CLIFFORD SMITH, PRESIDENT AND CEO,
T. BAKER SMITH, INC.**

Mr. SMITH. Thank you, Mr. Chairman. Believe it or not, I am a native of South Louisiana, too. I'm the only blonde-headed, blue-eyed coonass in the world named Smith.

Thank you and members of the Committee, and welcome to South Louisiana. Thank you for traveling to Port Fourchon, literally, ground zero for the offshore oil and gas industry in the Gulf of Mexico.

I personally believe that this is, frankly, the fastest growing industrial area in the United States of America primarily, of course, because of the offshore activities. I appreciate the opportunity to speak to you about the benefits of offshore oil and natural gas development.

My name is William Clifford Smith. I'm a lifelong resident of Terrebonne Parish, Houma, Louisiana. I'm a civil engineer and land surveyor and have owned and managed a consulting civil engineering, land surveying and environmental service firm since 1958. The firm was founded by my father in 1913. The firm now has approximately 130 associates. I am also a Presidential appointee to the Mississippi River Commission.

Over the years, our consulting/engineering firm has provided professional services to major landowners, developers, local, state and Federal government agencies, oil-and-gas-producing companies, pipeline and electrical transmission companies.

Houma is the economic center of Terrebonne Parish, located about 65 miles southwest of New Orleans, 30 miles north of the Gulf of Mexico and about 50 miles west of Port Fourchon. Economically, everything is very positive for our community and has been for most of my life.

Oil and gas was discovered in my parish in the late 1920s and early '30s. The exploration and production of oil and gas has had an unbelievable positive economic impact in my community for the last 75 years. The knowledge and experience our citizens have developed in the oil and gas industry has been exported all over the world.

The infrastructure created by the major oil and gas companies to originally collect and process our domestic oil and gas production has transformed the entire Louisiana coast from Texas to Mississippi into the biggest concentration of petrochemical facilities in the world. I believe oil and gas and its supporting activities represent at least 75 percent of our economy. What is so gratifying is that with oil and gas activities, which is a depleting natural resource, we also have a recurring natural resource industry along our coast. With the seafood industry, oil and gas and tourism, I truly believe this is the most productive coastal area in the world.

We in Louisiana really cannot understand why the rest of the Nation will not, with proper control and protection, permit oil and gas exploration. New techniques for exploration and production that were developed in coastal and offshore Louisiana can provide other states protection for their environment and the citizens of the coastal areas.

If other states would tap into their offshore natural resources, the United States may become significantly less dependent upon

foreign sources of oil. Not only do we remain vulnerable to the unstable politics of the Middle East, South America and Africa, but we are stinting our own economic development. Offshore drilling is a key component of better securing our energy and economic future in America.

While South America fully embraces the benefits of the oil and gas industry, we must make sacrifices and work hard to protect all of our natural resources. We must face the reality that the industry, as well as our very way of life, is being threatened by coastal erosion. As our coastline recedes and our communities slowly begin to fade away into the Gulf, billions of dollars of oil and gas infrastructures are being exposed to constantly impending threats of hurricanes and other national security threats.

Annually contributing more than \$5 billion a year to the U.S. Treasury through the outer Continental Shelf Royalties, Louisiana believes the government has the duty and responsibility to help protect this critical infrastructure and habitat. We lose a unique culture and way of life, as well as a booming economic sector as a substantial portion of our national energy supply.

I would like to extend my thanks and sing the praises of this Subcommittee and the Members of Congress for your hard work, particularly during the last 30 days. The Highway Bill and the Energy Policy Act of 2005 will provide Louisiana and the Nation with much needed relief and help support the oil and gas industry and infrastructure. The funds dedicated to coastal impact assistance from the offshore royalties are an essential first step in restoring our eroding coast and barrier islands that protect not only billions of dollars in oil and gas infrastructures, supplying the Nation with energy, but also our culture.

Beneficially tapping all of our resources, coastal Louisiana provides the United States with over 20 percent of their energy and 25 percent of the seafood consumed across the country each year.

Again, Mr. Chairman, thank you for traveling to Louisiana where the pavement hits the water. We will be glad to answer any questions that you may have now and in the future.

[The prepared statement of Mr. Smith follows:]

**Statement of William Clifford Smith, Chairman of the Board,
T. Baker Smith, Inc.**

Mr. Chairman and Members of the Subcommittee, welcome to South Louisiana. Thank you for traveling down LA1 to the Port Fourchon, literally ground zero for offshore oil and gas in the Gulf of Mexico. I appreciate the opportunity to speak to you about the benefits of offshore oil and natural gas development. My name is William Clifford Smith, and I am a life long resident of Terrebonne Parish, Houma, Louisiana.

I am a civil engineer and land surveyor and have owned and managed a consulting Civil Engineering, Land Surveying, and Environmental Services firm since 1958, when I received a Bachelor of Science degree in Civil Engineering from Louisiana State University. The firm was founded by my father in 1913, who was a Civil Engineering graduate of Tulane University. He, too, was a life-long resident of our community. The firm now has approximately 130 associates and is owned and managed by my children, one of whom is also a Civil Engineering graduate of Louisiana Tech University. Due to my expertise in engineering, coastal restoration, and the oil and gas industry, I am also a Presidential Appointee to the Mississippi River Commission, which was established by Congress in 1879 to advise the Chief of Engineering of the U.S. Corps of Engineers on the development and improvements on the Mississippi River.

Over the years, our consulting engineering firm has provided professional services to major landowners; developers; local, state, and federal government agencies; oil

and gas producing companies; and pipeline and electrical transmission companies. We provide assistance in wetlands permitting, feasibility studies, and cost estimates; perform field, property, and hydrologic surveys; and prepare plans, specifications, and supervise and administer construction contracts. We have literally lived on the land and waters of this area for over 90 years, three generations, and have made a living at it. Practically all of the wealth we have accumulated over the years can be attributed to Louisiana's unique abundance of natural resources and has been reinvested into our community.

Houma is the economic center of Terrebonne Parish, located approximately 65 miles southwest of New Orleans, 30 miles north of the Gulf of Mexico, and 50 miles west of the Port Fourchon, where we are now. I have lived in the community of Houma for 70 years, all my life. My parish consists of approximately 1,300,000 acres of surface area. It is the second largest surface area parish in Louisiana. We have approximately 1,000,000 acres that I consider to be wetlands, including: open water on the Gulf of Mexico, bays, lakes, saltwater marshes, fresh water marshes, and swamps. Economically, everything is very positive for our community and has been most of my life except in the 1980's and early 1990's. We have had a 10% increase in population over the last 10 years, 4% unemployment rate, and an 11% average increase in sales tax collections per year. The economy of Terrebonne Parish, literally the "good earth" in French, and South Louisiana is dependent upon the plentiful assets of our coastal environment.

Oil and gas was discovered in my parish in the late 1920's and early 1930's. The exploration and production of oil and gas has had an unbelievably positive economic impact in my community for the last 75 years. The knowledge and experience our citizens have developed in the oil and gas industry is exported all over the world. The offshore activities off Louisiana have been a tremendous resource to the entire nation. Not only are we exploring for oil and gas 200 miles south of this location at Port Fourchon, but we are also importing, through the LOOP project, a considerable amount of our nation's energy needs. We are also going to import more L.P.G. from foreign sources into our state, providing the country with the ability to receive low-cost natural gas.

The infrastructure created by the major oil and gas companies to originally collect and process our domestic oil and gas production has transformed the entire Louisiana coast, from Texas to Mississippi south of Interstate 10 and the Delta of the Mississippi River from Baton Rouge to its mouth, into the biggest concentration of petrochemical complexes in the world. All of this activity is to supply the nation with the petroleum and chemical products that sustain our economy and standard of living. All of this oil and gas activity has been the economic blood of our community. I believe oil and gas, and its supporting activities, represent at least 75% of our economy.

The oil and gas produced in the Gulf of Mexico off our coast for the last 60 years has kept the East Coast and the Midwest running. In Terrebonne Parish alone there are still approximately 2,000 oil and gas wells, and we only need about two to supply our energy needs. On the other hand, many states consume up to 22 times more energy than they produce. Therefore, most of our valuable commodity is being consumed by the rest of the nation.

What is so gratifying is that with the oil and gas activity, which is a depleting natural resource, we also have a recurring natural resources industry along our coast.

From my deck overlooking the Gulf of Mexico at my summer home 10 miles east of here at Grand Isle, Louisiana, I have spent the last 40 years observing one of the most bountiful regions in the world. Among the greatest natural resources in Louisiana are our: oil, gas, sulphur, salt, and various other minerals, fish, crabs, oysters, shrimp, and crawfish. Nearly one-third of the fisheries catch in the lower 48 states is produced in Louisiana's prosperous wetlands and millions of migratory birds flock to the marsh each year. Our "Sportsman's Paradise" is home to lucrative commercial fishing, recreational fishing and hunting, and an ecotourism industry. I truly believe this is the most productive coastal area in the world.

My wife and I had the opportunity to go around the world some years ago to Fiji, New Zealand, Australia, Hong Kong, Italy, Greece, and England and we naturally migrated to the coast. Nowhere else do you see what we have in coastal Louisiana. We have also seen the west and east coast of the United States and Alaska—nothing has the economic value that we see in Louisiana, and it all coexists together.

We in Louisiana really cannot understand why the rest of the nation will not, with proper controls and protection, permit oil and gas exploration. New techniques for exploration and production that were developed in coastal and offshore Louisiana could provide other states protection for the environment and citizens of coastal areas. The oil and gas industry throughout the world looks to Louisiana for help

to properly secure their environment while drilling in sensitive offshore ecosystems. Earlier this year a delegation of government officials and private industry partners from Kazakhstan visited my firm in Louisiana to be trained on this very subject. We in Louisiana are industry leaders, paving the way for safe offshore drilling and pipeline technology.

If other states would tap into their offshore natural resources, the United States may become significantly less dependent on foreign sources of oil. The United States loses on many fronts when we opt to rely on foreign sources of oil rather than our own natural resources. Not only do we remain vulnerable to the unstable politics of the Middle East and South America, but we are stinting our own economic development. We are paying more money at the gas pump and prohibiting the growth of a lucrative industry that could create thousands of jobs around the country. The oil and gas industry in South Louisiana is the economic livelihood of Louisiana, directly and indirectly employing a vast army of workers. The productive Louisiana workforce has the expertise and infrastructure to produce safe, reliable sources of energy that are in excess of our needs. Offshore drilling is a key component of better securing our energy and economic future in America.

While South Louisiana fully embraces the benefits of the oil and gas industry, we must make sacrifices and work hard to protect all our natural resources. We must face the reality that the industry—as well as our very way of life—is being threatened by coastal erosion. As our coastline recedes and our communities slowly begin to fade away into the Gulf, billions of dollars of oil and gas infrastructure are being exposed to the constant impending threats of hurricanes and other national security threats. Annually contributing approximately \$5 billion to the U.S. Treasury through Outer Continental Shelf royalties, Louisiana believes the government has the duty and responsibility to help protect this critical infrastructure and habitat. If Louisiana loses its coast, we all lose. We lose a unique culture and way of life, as well as a booming economic sector and a substantial portion of our national energy supplies.

I would like to extend my thanks and sing the praises of this Subcommittee and the all Members of Congress for your hard work—particularly during the last 30 days. The Highway Bill and The Energy Policy Act of 2005 will provide Louisiana, and the nation, with much needed relief and help support the oil and gas industry and infrastructure. Specifically, the highway bill contains millions for the elevation of LA 1—the highway we have all traveled down today that is an essential corridor for delivering oil and gas to the nation. Economists predict a drastic and immediate price hike at the pump should LA 1 be closed for even a few days.

I extend my gratitude to you for your work making the energy bill a reality. I was beginning to believe it would not be passed during my lifetime. The funds dedicated to coastal impact assistance from the offshore royalties are an essential first step in restoring our eroding coast and barrier islands that protect not only billions of dollars in oil and gas infrastructure supplying the nation with energy, but also my culture. Our very way of life is endangered. There is still work to be done, but this bill is a critical step to continue the production of offshore oil and gas as well as the Cajun heritage and *joie de vivre* that flourish along Louisiana's bayous.

Beneficially tapping all our natural resources, Coastal Louisiana provides the United States with 20% of the energy and 25% of the seafood consumed across the country each year. Sectors of the economy dependent on oil and gas and the environment exist harmoniously in our community.

Once again Mr. Chairman, thank you for traveling to Louisiana where the pavement hits the water. The people of South Louisiana look forward to working with you to proliferate our expertise while helping improve our national economy and securing our energy needs. I will be glad to answer any questions that you may have now and in the future.

**Response to questions submitted for the record by William Clifford Smith,
Chairman of the Board, T. Baker Smith, Inc.**

1. *At this point it would seem that, if the federal government ever worked out a system whereby oil and gas development could occur in a least a portion of the Eastern Gulf of Mexico, that portion would be nowhere near the Florida coast. Is Louisiana prepared to continue to support—through Port Fourchon, for example—any offshore activity that might occur there?*

Absolutely. The people of Louisiana are very supportive of expanding offshore activity in the Gulf of Mexico. We recognize that we have significant infrastructure already in place to support such activity; however, assistance from the federal government would allow us to improve our vital infrastructure, such as highways,

bridges, and navigation channels, which would permit us to provide support activity more efficiently.

2. *If the federal government could move legislation that provided some sort of revenue sharing to states that support offshore development, what sort of "sharing" would you like to see?*

- a. *An annual hard dollar amount?*
- b. *A percentage of OCS revenues?*

Louisiana currently produces over \$5 billion in offshore oil and gas royalties to the United States Treasury each year and the state receives less than a 1% return on royalties. On the other end of the spectrum, western states receive approximately 50% of oil and gas royalties within their boundaries based up on the Mineral Leasing Act. This seems unjust and unfair. Why shouldn't the hardworking people of Louisiana get their fair share?

My position is that fairness and precedent should be continued, greatly increasing the percentage of offshore revenue sharing based upon the 50% onshore sharing.

3. *Does this revenue sharing need to be dollars that are directly funded? Or can they be appropriated? Why?*

Again, we seek rights that are fair and similar to revenue sharing plans that are currently in place in the other states. This precedent sets forth a plan for directly funded oil and gas royalty sharing, as well as mineral and surface rights. These funds should not be appropriated, but rather directly based on the benefits the U.S. Treasury receives from Louisiana's assets.

4. *Would you prefer to see that the federal government set up a system prescribing how states would be eligible for this money?*

Yes.

5. *Would you prefer to see that the federal government set up a system prescribing how states could spend this money?*

I do not believe this is necessary. However, fairness and precedent are the points I would like to stress again. Should the federal government opt to set up a system prescribing how states spend revenue sharing funds, it should be similar to any guidelines in the western states. To the best of my knowledge, the federal government does not have much oversight in this area.

6. *Mr. Falgout, noted in his testimony that the oil and gas industry co-exists with many other coastal users, and that it doesn't have to be one or the other. The committee agrees with him that it is a false choice to believe America must choose one or the other. Mr. Davis also noted a similar theme in his testimony that the "belief that OCS development is incompatible with environmental stewardship and the best interests of communities is widespread and it runs deep". I open this question to the entire panel. How then, can a Florida, or a California, be convinced that the industry can—and does—coexist with other uses, and the environment? Please provide specific examples if you can.*

The oil and gas industry and environmental stewardship can co-exist. In fact, they do. At this hearing, Congress observed the harmonious co-existence of offshore oil and gas exploration and drilling, tourism, and environmental consciousness in south Louisiana. In addition to our tremendous tourist industry, an excess of 20% of our domestically produced energy and 25% of the nation's seafood harvest come across Louisiana's wetlands. To be convinced, skeptics should come to Louisiana and witness our recreational fishing, commercial fishing, bird watching, and scores of other thriving ecotourism activities. Furthermore, assistance from the federal government to improve our infrastructure may lead to a more productive co-existence of all our industries.

7. *Based on your experience, what restrictions and requirements would you insist upon if you were setting up a system for drilling off another coastal state?*

First, I recommend an extensive 3-d seismic evaluation and inventory using the latest modern technology of what and where specific exploration and production could be most effective. From the inventory, develop a specific plan to physically explore and act on these production areas to minimize the possibility of duplicate facilities. From this, some type of corridor for the production and transportation of such resources should be established. In Louisiana we have roughly 10 million pipelines crisscrossing the state. I view this as our "mistake" in the industry; however, it happened because of the evolution of the oil and gas industry over time. Other states can learn from our experience here and draft detailed plans to minimize the footprint for the development of these resources.

8. *Is the tourism industry in Louisiana affected adversely by the oil and gas industry?*

The oil and gas industry has had a positive impact on Louisiana's tourism industry, especially sport fishing. My father lived on the coast his entire life and never went south of the coast into the Gulf of Mexico. However, when my children grew up on the coast they were fishing 30 miles offshore when they were merely 2 years old, primarily because of the oil and gas facilities in the Gulf of Mexico. During the hearing a video demonstrates the offshore platforms can have positive benefits to the maritime environment. Programs such as Rigs to Reefs create artificial reefs where aquatic life can flourish. There is no doubt in my mind that the offshore oil and gas industry has bolstered Louisiana's tourism industry.

9. *What economic benefits has drilling had on your community?*

The exploration and production of oil and gas has had an unbelievably positive economic impact in my community for the last 75 years. I believe oil and gas, and its supporting activities, represent at least 75% of our economy. It is the economic livelihood of Louisiana, directly and indirectly employing a vast army of workers. In addition to the economic development directly related to the offshore drilling industry, the economy as a whole has benefited from increased tourism and greater spending on various types of infrastructure, everything from roads to hotels to schools.

10. *What has been the most severe impact of drilling?*

The most severe impact of offshore drilling in our community has been the footprint left by the multiple pipeline corridors that crisscross coastal Louisiana to bring the product onshore. This allows for additional salt water intrusion into our freshwater marshes, enhancing the rate of coastal erosion and threatening various infrastructure, such as roads, bridges, navigation canals, airports, heliports, and even schools and government facilities.

11. *Do you recommend that other coastal states drill for offshore oil and gas?*

Yes, I recommend offshore drilling to other coastal states because the process can be done in a manner in which the environment and human occupants of the coastal areas are protected. Sectors of the economy dependent on oil and gas and the environment exist harmoniously in our community. New techniques for exploration and production that were developed in coastal and offshore Louisiana could provide other states protection for the environment and citizens of coastal areas. If other states would tap into their offshore natural resources, the United States may become significantly less dependent on foreign sources of oil, enhancing both our national security and our personal pocketbooks.

12. *Are industry experts in Louisiana willing to help other coastal states institute safe drilling practices?*

Experts in Louisiana have exported their expertise in the oil and gas industry as others throughout the world look to Louisiana for help to properly secure their environment while drilling in sensitive offshore ecosystems. Earlier this year a delegation of government officials and private industry partners from Kazakhstan visited my firm in Louisiana to be trained on this very subject. We in Louisiana are industry leaders, paving the way for safe offshore drilling and pipeline technology. Of course, we are willing to assist other coastal states as we have other nations and corporation across the world.

13. *Has offshore drilling caused coastal erosion?*

It is possible that 10 to 15 percent of Louisiana's coastal erosion has been caused by offshore and onshore oil and gas activities; however, this is minimal when compared to the erosion that has been caused by other manmade and natural activities, such as leveeing the Mississippi River.

14. *Do you believe offshore drilling may cause erosion in other coastal states?*

The best way to prevent a problem is to learn from the mistakes of others. Other states that decide to drill offshore should take a careful look at some of the lessons and techniques that have been developed in coastal Louisiana to provide for environmentally safe offshore oil and gas drilling. As I have stated earlier, one important factor for states that intend to develop new drilling regimes to consider is the development of pipeline corridors to transport oil and gas onshore. Minimizing the footprint of the industry is crucial to diminish the overall environmental impact, including the possibility of coastal erosion.

Mr. GIBBONS. I still say you haven't lost your sense of humor, even though you are—whatever you called yourself. Thank you.

I want you to know that Nevada would be more than willing to access its offshore resources, but we would first have to push California out of the way.

Thank you very much for your testimony, Mr. Smith. We will turn now to Mr. Dan Borné, Louisiana Chemical Association.

**STATEMENT OF DAN S. BORNÉ,
LOUISIANA CHEMICAL ASSOCIATION**

Mr. BORNÉ. Thank you. Mr. Chairman, thank you very much. Mr. Jindal and staff, thank you for inviting the Louisiana Chemical Association to be here with you. I have asked the staff to distribute some remarks that I have tweaked a little bit from those that were originally in the packets.

I also have some paper slides here that are referenced in the text of the testimony, Mr. Chairman, if you would like to look at those as I proceed.

My name is Dan Borné, and I'm president of Louisiana Chemical Association. The LCA consists of 69 chemical manufacturers that operate at nearly 100 locations in Louisiana. Our plants directly employ over 27,000 Louisiana citizens, and indirectly account for tens of thousands more jobs.

I'm appearing today on behalf of the LCA. My comments, however, also reflect the views of the American Chemistry Council and the Consumers Alliance for Affordable Natural Gas. I am here to represent the views of major natural gas consumers.

Most of the folks here have been on the putting-up end, or on the taking-up end. I would like to explain why the availability and price of natural gas are so important to my industry, and to the entire American manufacturing economy. We consume a large amount of energy, especially natural gas, to power our plants and processes. But we also use natural gas like a baker uses flour. The bakery shops of New Orleans use flour to produce bread, especially French bread, sweet rolls, muffins, bagels, croissants and, of course, King Cakes. We use natural gas as feed stocks to make things, plastics, paints, pharmaceuticals, adhesives, detergents, fertilizers, medicines and a thousand other products that every one of us uses every day.

And finally, we purchase a lot of power, much of which is generated by natural gas. In fact, Louisiana is the third largest consumer of natural gas in the United States; Louisiana's industrial consumption ranks second in the United States; Louisiana's industrial and power natural gas consumption is nearly as large as China and is larger than Australia, Spain, Brazil, New Zealand, Ireland, Portugal and South Africa.

The U.S. chemical industry consumes more energy than Mexico, more electricity than the state of New York, more natural gas than California to produce a wide range of critical products. Put another way, the chemical industry consumes more natural gas than it would take to heat 30 million homes in a year, about half of the nation's home heating requirements.

The availability and price of natural gas are our most important economic issues. On Thursday, natural gas closed at \$9.30 per

MMBTU. Yesterday, it closed at \$9.50. \$9.50. The industry's natural gas costs have increased by \$10 billion in two years. That is 10 billion that we did not return to shareholders or reinvest in new facilities.

The effect of these additional costs, think of it as a huge energy tax, has been severe. We have seen a 20 percent decline in natural gas consumption in the chemical industry. Economists call it "demand destruction," we call it "job loss." American jobs are being out-forced by the rising cost of natural gas.

Dozens of plants around the country have closed. Those jobs have gone away and will be very hard to get back. Here in Louisiana, chemical manufacturing has lost over 3,000 jobs due to high gas costs. These jobs average nearly \$60,000 a year in wages alone.

U.S. chemical industry operations lost \$50 billion in business to overseas operations since 2000, as high natural gas costs eroded competitiveness. We went from posting trade surpluses in excess of \$20 billion, the most successful export industry in the history of this nation, to the U.S. being a net importer of chemicals. More than 100,000 American jobs have been out-forced in the chemical industry. A similar story is being played out in the forest and paper industry, steel, glass and other energy intensive industries. Overall, U.S. manufacturing has lost 3 million jobs. Even as employment rebounds, manufacturing jobs continue to decline driven by spiraling energy costs.

We are hemorrhaging because U.S. natural gas prices are the highest in the world, many times higher than in certain parts of the Middle East and Russia, and much higher than in the Far East. That cripples the competitiveness of U.S. operations. It is a case of too much demand chasing too little supply. At the same time, existing supply basins are beginning to decline. Promising new basins in the eastern Gulf of Mexico and on the Atlantic and Pacific seaboards remain, by Federal fiat, off limits.

The President signed the Energy Policy Act on Monday, and we supported the bill because it helps somewhat to reduce the natural gas demand-supply imbalance. But let's be clear about one thing: It does nothing to change 25,000 years—25 years, rather, of Federal policy on offshore oil development—it seems like 25,000 years—and therefore, leaves the Nation short of desperately needed new supplies of natural gas.

There's one very quick slide, Mr. Chairman, I would like to point out to you. We call it the "Jaws of Death," and it is this one right here, which shows the worsening gap between domestic natural gas supply and demand. So, while the energy bill makes significant progress, more is needed if we are to restore competitive natural gas prices and stop the erosion of jobs.

U.S. policy continues to keep the most promising areas for gas production off limits and that happens to be in offshore waters. That policy was implemented at a time when gas prices were low and supplies were thought to be high. Today, the reverse is true and current policies must change to keep pace with reality.

Louisiana is a leader in the production of natural gas. The state is second overall in gas production, and first in Federal offshore production bill a wide margin. So, we recognize the concerns of some coastal communities, because our communities have those

same concerns, and we think the way to do it is what has been expressed here earlier today. And that is, to have states opt in to offshore development and give them a piece of the action.

In closing, I would like to thank you for holding this hearing again, and thank you for your continued interest in the issue. How OCS access is resolved will have long-term consequences for manufacturing and for the economy of America. And I think we need to be responsible in how we evaluate offshore energy production and make it a part of a balanced domestic energy policy.

I will attempt to answer any questions that you and the Committee might have.

[The prepared statement of Mr. Borné follows:]

**Statement of Dan S. Borné, President,
Louisiana Chemical Association**

My name is Dan Borné and I am the President of the Louisiana Chemical Association. The LCA consists of 69 chemical manufacturers that operate at nearly 100 locations in Louisiana. Our plants directly employ over 27,000 Louisiana citizens and indirectly account for tens of thousands more jobs.

I am appearing today on behalf of LCA. My comments, however, also reflect the views of the American Chemistry Council and the Consumers Alliance for Affordable Natural Gas. I'm here to represent the views of major natural gas consumers.

I'd like to start by explaining why the availability and the price of natural gas are so important to my industry—and to the entire American manufacturing economy. We consume a large amount of energy—and especially natural gas—to power our plants and processes. But we also use natural gas like a baker uses flour. The bakery shops in New Orleans use flour to produce bread, especially French bread, sweet rolls, muffins, bagels, croissants and, of course, King Cakes. We use natural gas as feed stocks to make items—plastics, paints, pharmaceuticals, adhesives, detergents, fertilizers and a thousand other products that everyone of us uses every day. Even aspirin can be traced back to natural gas molecules. And, finally, we purchase a lot of power, much of which is generated by natural gas.

In fact:

- Louisiana is the third largest consumer of natural gas in the United States.
- Louisiana's industrial consumption ranks second in the United States.
- Louisiana's industrial and power natural gas consumption is nearly as large as China's and is larger than Australia, Spain, Brazil, New Zealand, Ireland, Portugal and South Africa.

The U.S. chemical industry consumes more energy than Mexico, more electricity than the state of New York and more natural gas than California to produce a wide range of critical products. Put another way, the chemical industry consumes enough natural gas to heat 30 million homes a year—almost half of the nation's home heating needs. The availability and price of natural gas are our most important economic issues.

Today, the price of natural gas is hovering at close to \$9.00 per million BTU. That's equivalent to saying the price of gasoline is hovering at close to \$5.00 per gallon. The industry's natural gas costs have increased by \$10 billion in two years. That is \$10 billion we did not return to our shareholders, or invest in new facilities.

The effect of those additional costs—think of it as a huge energy tax—has been severe. We've seen a 20 percent decline in natural gas consumption in the chemical industry. Economists call it "demand destruction." We call it job loss.

American jobs are being out-forced by the rising cost of natural gas!

Dozens of plants around the country have closed their doors. Those jobs have gone away and will be hard to get back. Here in Louisiana, chemical manufacturing has lost over 3000 jobs due to high gas costs. These jobs average nearly \$60,000 a year in wages alone.

U.S. chemical industry operations lost \$50 billion in business to overseas operations since 2000 as high natural gas costs eroded competitiveness. We went from posting trade surpluses in excess of \$20 billion—the most successful export industry in the history of this nation—to the U.S. being a net importer of chemicals. More than 100,000 American jobs have been displaced in the chemical industry. A similar story is being played out in the forest and paper industry, steel, glass and other energy intensive industries. Overall U.S. manufacturing has lost 3 million jobs.

Even as employment rebounds, manufacturing jobs continue to decline driven by spiraling energy costs.

We are hemorrhaging production and jobs because U.S. natural gas prices are the highest in the world—ten times higher than in certain parts of the Middle East and Russia. This cripples the competitiveness of U.S. operations. It's a case of too much demand chasing too little supply. Utility consumption of natural gas grew by 31 percent in a few short years. At the same time, existing supply basins are beginning to decline. Promising new basins in the Eastern Gulf of Mexico and on the Atlantic and Pacific seaboards remain—by federal fiat—off-limits.

The President signed The Energy Policy Act on Monday and it is now the law of the land. We supported the bill because it helps to reduce the natural gas demand-supply imbalance:

- It breaks new ground in the area of energy efficiency to reduce natural gas demand.
- It makes a serious effort to diversify the energy supply—it is an incubator for new technologies, further reducing natural gas demand.
- It gives the nation's energy infrastructure a much-needed facelift in the form of new LNG terminals and pipelines.
- And, it adds to the natural gas supply by streamlining on shore permitting, but not as much as the market needs. It will reduce the red tape that slows up natural gas production in western states.

But let's be clear about one thing: it does nothing to change 25 years of federal policy on off shore energy development—and therefore leaves the nation short of desperately needed new supplies of natural gas. So while the bill makes significant progress, more is needed if we are to restore competitive natural gas prices and staunch the erosion of U.S. jobs.

U.S. policy continues to keep the most promising areas for gas production off limits and that happens to be in certain off shore waters. That policy was implemented at a time when natural gas prices were low and supplies were thought to be high. Today, the reverse is true and current policies must change to keep pace with reality.

Louisiana is a leader in the production of natural gas. The state is second overall in gas production and first in federal offshore production by a wide margin. So we recognize the concerns of some coastal communities, because our communities have those same concerns. We think the way to do it is to give coastal states the right to decide if natural gas production off their coasts is in their best interest on a state-by-state basis. If a state opts to produce it should also qualify for coastal impact assistance, and because of the recent energy bill Louisiana will indeed share in some of the revenue collected off its shores. A state should, of course, also have the right not to produce. That makes sense. What doesn't make sense is to continue a blanket ban on 80 percent of the OCS while the unnaturally high U.S. price of natural gas drives businesses and jobs overseas.

In closing, I'd like to thank you for holding this hearing and thank you for your continued interest in the issue. How OCS access is resolved will have long-term consequences for manufacturing and the economy in America. We think we need responsible off shore energy production as part of a balanced domestic energy policy.

Mr. GIBBONS. Mr. Borné, I don't think that any association could have a more dedicated and outspoken individual than you are, for what you have just said. I think you put it very clearly, very succinctly, and very helpfully to us to understand the impact of high energy costs. And supply versus demand issues are part of that here. So, thanks for your testimony.

We turn now to Mr. Allen Walker from Gulf Productions, Inc. Mr. Walker, welcome. The floor is yours.

STATEMENT OF ALLEN WALKER, GULF PRODUCTIONS

Mr. WALKER. Thank you, Mr. Chairman. I appreciate Mr. Jindal, Mr. Cranford and Mr. Coleman and Mr. Melancon's staff being here. Mr. Jindal made a very good and very important statement I feel strongly about. That is why I'm going to read this thing here, as the panel before me and these guys have covered the logistics of domestic drilling quite well. That it is important, and we need

to do it with Godspeed because our nation is definitely suffering. But there are other uses of oil platforms that do create jobs and have other pretenses for creating thousands of jobs. I will get to some things that I'm doing with the industry and children and high school students that are taken very well, but I will read this first.

The Gulf of Mexico is home to 4,000 oil and gas platforms. They produce one of the most prolific ecosystems by area on the planet. Stanley and Wilson 2000 reported that 10,000 of 30,000 fish reside around the platforms in an area about half the size of a football field. Live rock organisms, coral, endangered species and protected fish and invertebrate colonize the platform's submerged structure. Many blue water platforms create complex coral reef ecosystems, comprised Caribbean flora and fauna that would otherwise not exist in 1,000 square miles of generally creatureless and silty Continental Shelf.

On behalf of the oil industry, thank you for making the largest manmade reef system ever.

The platforms clearly produce fish rather than merely attract fish. An abundance of evidence suggests that they are Essential Fish Habitat, Coral Habitat and Endangered Species Habitat. Over 50 species of federally managed fish, crustaceans and live rock organisms settle and forage around the offshore structures. The ecosystems they create are not designated as protected habitat under any of the current Gulf of Mexico Fisheries Management Plans. Over 120 of them will be removed every year for the next 40 years. As Mr. Jindal said, that can be drilled again and into different resources.

Post-larval and juvenile reef fish can be found in remarkable numbers foraging in the thick mats of live rock and coral that attach to platform legs. Thousands of herbivores, such as Angel fish, Blue Tang, chubs and Parrotfish feed on the algae that grow on platforms. Plankton pickers, such as Brown Chromas, as you are looking at in the picture there, right after the red snapper, Creol Wrasse and Creolfish are continuously feeding on and off the platforms. The invertebrate community living on the platform support several species of Filefish, large schools of Spadefish and a multitude of Sergeant Majors and Hogfish. Ultimately, the sharks, tuna, groupers, snapper and jacks end up preying on the fish that live and feed on the platforms. In turn, we get job sources such as charter fishing.

Photographic evidence demonstrates that 12 species of egg-laying fish are utilizing platforms to raise their offspring. More remarkably, platforms are being utilized as surrogate nesting grounds for several species of drifting and larvae. Broadcast spawners or pelagic spawners cast fertilized eggs to the current after mating. The offspring can drift for days, weeks, or even months in a larvae state. Coral reefs, and in some cases, sandy habitats trigger a sensory mechanism in the infant fish that tells the fish to transform into a coral-stimulate metamorphosis. After transformation, the post-larval fish must begin feeding or perish. The surface area of the sponges and other attached invertebrates is teaming with the essential food items for juvenile and post-larval fish, plankton, copepods, amphipods, and not to mention us.

Oil and gas platforms represent the only reef habitat over much of the Louisiana Continental Shelf. During the summer months, much of the ocean floor in the region is covered with an anoxic layer of decomposing algae resulting from excess nitrogen draining from agricultural fields along the Mississippi watershed. Petroleum structures are incredibly important to fish in the area, in that they are the only hard substrate that rises through the anoxic layer to provide reef habitat, food, spawning areas, nesting areas and mating grounds.

I charter fish, amongst a few things. A lot of people don't affiliate oil rigs with tourism. What I have learned over the past few years is that a lot of people come here based on us having oilfields. That goes to say with, for example, the charter industry. I have fished out here for 37 great years with my father. I have a great strand of memories that head up La. 1. I'm based now out of Venice, Louisiana, as a charter captain. We have an enormous amount of people and an enormous amount of industry growing down there right now, due to the fact that these oil platforms are in place. And with that, comes renting cabins and motels, and feeding in our restaurants, and ultimately, fishing some of the best grounds in the world. My statement would be they are the best grounds in the world.

It also has traveled out to the movie industry. I'm right now in my second pilot with the Discovery Channel, and MTV for the third time. Through Rife International, we are doing a movie about a monster that lives underneath an oil rig with Matthew McConaughey. It is bringing money. It's the oil platforms that are bringing in money that people don't recognize.

Not to mention the educational aspect of these platforms goes way beyond just the field out there, it goes into the classrooms now. I have been lucky enough to go to Central Lafourche on behalf of the sponsorship of Chouest with Mr. Ben St. Pierre, and having the first identification class in the nation. You ought to see these kids, young men and women. They are so excited about this, which in turn, creates jobs for themselves. They might want to be a scuba instructor, they might want to keep the charter industry going, they might want to be a biologist, scientist. It is endless. You ought to see how happy they are.

But, also, we have another industry that revolves around the platforms, and of course, all you guys know, that is commercial fishing. And the more platforms you put out there, I think the better off the Gulf will be; mainly because it is—that's all you need to see right there. That is one of the largest migrations of tarpon ever filmed. Before that, I had a scientist tell me that it did not exist. I have been very lucky to work with scientists and doctors such as Dr. Jose Castro; Dr. Love out of California; Dr. San Marco; environmental scientist, Steve Kolian. I have been educated to believe that—by other folks in other states—to think that these are just some big giant monsters sitting out there destroying the ecosystem. It is quite different. Without them, we would not have an ecosystem.

I was watching a program last night with Dr. William Hogarth. I'm sure all you guys are aware of him. He was at a fundraising situation where he wanted to have people eat more American sea-

food. The main reason he was there speaking on behalf of this was because 75 percent of our seafood is imported, when we have the means right here off this coast to completely knock that number way, way down. In return, we would create jobs.

As President Bush is pursuing mariculture and aquaculture programs, we are taking a great step forward because this is big, big money. This is jobs for everybody that wants to be in this industry. And it was quite a shame to hear him say that we actually import 75 percent of our seafood.

It is pretty much the same thing with the oil industry. Why should we be importing this much oil when they have all this technology right here sitting here in this room that can pursue natural gas and use the other rigs that are out there, expired, to go for the crude that is still sitting down there?

So, my response, cutting down those oil rigs is not a good thing because they are creating many, many jobs that people are really not seeing.

I would like to just say thank you for having me here, and we need to really look into this drilling further and further because we have a gold mine underneath every single one of these platforms, whether it is environmental or for our economy. Thank you.

[The prepared statement of Mr. Walker follows:]

Statement of Allen Walker, Gulf Productions, Inc.

The Gulf of Mexico is home to 4,000 oil and gas platforms. They produce one of the most prolific ecosystems, by area, on the planet. Stanley and Wilson (2000) reported that 10,000-30,000 fish reside around the platform in an area about half the size of a football field. Live rock organisms, coral, endangered species, and protected fish and invertebrates colonize the platforms submerged structure. Many blue-water platforms create complex coral reef ecosystems, comprised of Caribbean flora and fauna that would otherwise not exist on thousands of square miles of generally featureless and silty continental shelf.

The platforms clearly produce fish rather than merely attract fish. An abundance of evidence suggests that they are Essential Fish Habitat (EFH), Coral Habitat, and Endanger Species Habitat (ESH). Over 50 species of federally managed fish, crustaceans, and Live rock organisms settle and forage around the offshore structures. The ecosystems they create are not designated as protected habitat? Under any of our current Gulf of Mexico Fisheries Management Plans. Over 120 of them will be removed every year for the next 40 years.

Post-larval and juvenile reef fish can be found in remarkable numbers foraging in the thick mats of live rock and coral that attach to the platform legs. Thousands of herbivores such as Angle fish, Blue Tang, Chubs, and Parrotfish feed on the algae that grow on the platforms. Plankton pickers such as Brown Chromas, Creol Wrasse, and Creolfish are continuously feeding on and off the platforms. The invertebrate community living on the platforms supports several species of Filefish, large schools of Spadefish, and a multitude of Sergeant Majors and Hogfish. Ultimately, the sharks, tuna, grouper, snapper, and jacks end up preying on the fish that live and feed on the platforms.

Photographic evidence demonstrates that >12 species of egg laying fish are utilizing platforms to raise their offspring. More remarkably, platforms are being utilized as surrogate nesting grounds for several species (>13) of drifting larvae. Broadcast spawners or pelagic spawners cast fertilize eggs to the current after mating. The offspring can drift for days, weeks, or even months in the larvae state. Coral reefs, and in some cases, sandy habitat trigger a sensory mechanism in the infant fish, that tells the fish to transform into a post-larvae state. Once currents guide the larvae to the platform, the presence sponges, hydroids, mollusks, and coral stimulate metamorphosis. After transformation, the post-larval fish must begin feeding or parish. The surface area of the sponges and other attached invertebrates is teaming with the essential food items for juvenal and post-larval fish, i.e. plankton, copepods, and amphipods.

Oil and gas platforms represent the only reef habitat over much of the Louisiana continental shelf. During the summer months, much of the ocean floor in the region

is covered with an anoxic layer of decomposing algae resulting from excess nitrogen draining from agricultural fields along the Mississippi watershed. Petroleum structures are incredibly important to fish in the area in that they are only hard substrate that rises through the anoxic layer to provide reef habitat, food, spawning areas, nesting areas, and mating grounds. Obligatory reef fish spend their entire lives on the platforms in search of food, reproducing and competing for territory.

Mr. GIBBONS. Mr. Walker, I want to thank you. It is clear that you are that part of this whole industry that oftentimes is not recognized, but your voice out there to tell the benefits in terms of indirect benefits of what this industry brings to the people of this country and, in fact, the people of the world, is critically important.

What you have brought to our Committee is very, very valuable—your testimony—and showing us these slides and presentations today of the value as well.

In fact, I'm going to go back and tell my young kids that I was out on the Petronius and looking at the damage to the substructure, the missing parts of that oil rig. I'm going to tell them now it was not a hurricane, but it was a monster living under the rig. I will prove it to them when the movie comes out showing the monster. They will see it.

Ladies and gentlemen, we have just about five minutes left, and of course, we have taken, again, a little extra time in allowing each and every one of you to present your statement and your testimony to the Committee.

Every one of you, both panels, have been incredibly articulate and incredibly forceful in the presentation of your testimony about why we should be paying greater attention to this industry, to the coast, and to the people of Louisiana.

I just want to turn over here to Mr. Jindal for his closing remarks after mine, but I want to thank all of our witnesses today, and I want to thank the Boy Scouts who came today, and I want to thank Mr. Jindal and Mr. Melancon and his staff for hosting this Committee. I want to thank Ted Falgout for providing the facilities and hosting us here at Port Fourchon. I want to thank the hard-working men and women, many of whom are sitting in this room, many of whom are out on the rigs today providing the energy to this country.

We are a blessed country to have such hard-working people, and truly, every day of our lives, we should say thanks to all of you for what you do.

So, with that, I want to, once again, say that we will submit written testimony, or written questions—you have submitted written testimony—we will submit written questions to you, and we would appreciate you responding to those questions as well within ten business days, as we have said.

And most importantly, for this Committee, we have learned a great deal, but we also have learned that there is a great deal of brain power out here to solve the problems. We will continue to turn to you to ask the questions on how to fix the problems, how to move forward.

As one of you said, it is as important to the advancement of space, the advancement of deepwater drilling, to get—that has made this country great. That is a part of you. And I, most

importantly, want to say that I'm going to look forward to my next trip to the bayou of Louisiana. Thank you.

Mr. Jindal?

Mr. JINDAL. Thank you, Mr. Chairman. Thank you again for taking so much time out of your busy calendar to come down and spend some time with us. I will briefly comment on this panel and give my closing remarks.

I want to say that, Dan, thank you for your comments. One of the things I hope everybody pays attention to is on page 6 of the slides, give you a chance to look at that in some detail. Dan points out the different prices paid for natural gas around the world. And he points out that in many countries that we compete with, they are paying less than one dollar; whereas our price is well over nine dollars.

One of the statistics I have often heard, and Dan, you can correct me if this is wrong, that there are 120 facilities being built worldwide right now, significant chemical facilities being built worldwide. Exactly one of those is being built in America. That is troubling to me. As we worry about our growing trade deficit, as we worry about economic security and as we worry about jobs being exported overseas, we have paper mills in this state that are in danger of not being able to compete because of the cost of natural gas. We have petrochemical facilities, we have vinyl manufacturers dependent on those raw materials.

Indeed, I was touring a paper mill that is making some critical decisions in the next several weeks up in northeast Louisiana, and their information is that their newest equipment is older than the oldest equipment on facilities located outside of this state.

In part, I think what we are saying is, companies aren't shutting down their facilities overnight, but they won't have the incentives to make the investments to improve their technology and expand their capacity. So we are laying the foundation today for jobs over the next several decades in the same way that the '60s Louisiana saw the investment of billions of dollars that has now resulted in these tens of thousands of good-paying jobs for our children today. I'm worried that if we don't build that same foundation today, our children won't have those jobs in just a very short period of time.

So I thank you for your testimony. I hope everybody pays attention to this chart. You know, we were talking yesterday, 80 percent of Wal-Mart's suppliers are now in China. Not overseas, but one in one country: China. If we don't do something about this cost of natural gas, that number is only going to get worse, not only for Wal-Mart, but for all of our manufacturing jobs.

Allen, and I want to thank you for your testimony as well. One of the things that we saw yesterday as we traveled these platforms, we saw again and again, we saw the porpoises ourselves, we saw the fish ourselves, we heard from the people out there. It is not just the abandoned rigs, but we saw an active production, we saw rigs that are in active production. The boats are coming to fish around those rigs that you see fishermen that know this area, know that that's where you can go to get good fish.

And you are right, if you're responsible, this can be a win/win. We can absolutely help our environment, and at the same time we can absolutely help our energy industry.

Cliff, Hank and Greg, I want to thank you for your testimony. One of the things that I think Hank and Cliff, in particular, but all three of you have shown, is the changing technology of the oil and gas industry. We were on platforms yesterday that in just a few decades have become increasingly sophisticated. These are the oil production facilities, these are the service providers that our fathers may remember.

Especially Hank and Cliff. I know you have companies that your fathers helped to create, you now run them, you have children, and in some cases, even other relatives living in this state. I think by your lives, your demonstration of the multigenerational impact of the energy industry, and not only your contributions, but your commitment to improving your community, I think that shows the oil and gas industry is a very positive economic force. I want to thank you for your testimony.

In conclusion, again, Mr. Chairman, I want to thank you for spending your time here. The themes that we think are so important for this Committee to take away to enter in our record is the critical role Louisiana is willing to play in producing our nation's energy. We are proud to play that role. With record prices of oil and gas, it is important that we become less dependent on foreign sources of energy.

Second, it is important that our country work with us to help us restore our coast. We are not asking for Federal dollars, we are simply asking to be allowed to keep a portion of the dollars generated for the Federal government to help restore our coast. It's \$5 billion—this year, it will be \$8 billion a year the Federal government will be making off of our coast.

We have heard before that the MMS is the second largest revenue generator next to the IRS for the Federal government. I think we would rather generate that revenues by producing energy than having the increased tax rates. But the only way to produce that energy is if we restore the coast, if we build the bridges, if we allow Louisiana to keep a portion of those revenues.

I want to thank this Committee for their support for those provisions, not only this past energy bill, but its ongoing support for the more robust provisions. I want to thank also the various people that helped to demonstrate to our Committee that oysters are not endangered here. We have a thriving seafood industry. We need to protect it. But just because there are things happening in Maryland, it shouldn't devastate or negatively impact Louisiana's thriving seafood industry.

Finally, the fact that we can coexist, we can support our environment while we support the energy industry, and how important Port Fourchon is when it comes to homeland security. This isn't just dollars and cents, it isn't just about economic development, it isn't just about recreational fishing. It is about all of those things. But it's also about homeland security. It's about making sure that we have a growing economy, and that we are not held hostage by foreign countries.

So, I want to thank the members of both of our panels, but I especially want to thank the Chairman and the Committee staff that have traveled on their own time to come down here and see

firsthand what so many of us in Louisiana have grown up with and what we know instinctively. Thank you, Mr. Chairman.

Mr. GIBBONS. Again, we want to thank all of our witnesses today, and if there is no further business to come before the Committee, we will excuse the panel and this Hearing is now adjourned.

[Whereupon, the Subcommittee was adjourned.]

[A statement submitted for the record by Ken Wells, President, Offshore Marine Service Association, follows:]

**Statement of Ken Wells, President,
Offshore Marine Service Association, Harahan, Louisiana**

My name is Ken Wells and I am the President of the Offshore Marine Service Association, also known as OMSA. OMSA is the national trade association representing the owners and operators of vessels that work in America as well as the world's offshore oil and gas industry. Our members work in support of that industry by providing transportation for supplies and personnel, by providing vessels involved in construction and repair work, and a range of other oil and gas-related services. Our 250 members own or operate most of the 1200 vessels that work in the offshore energy sector. These vessels include supply boats, crewboats, utility boats, liftboats and conventional tugs and barges.

First, thank you for taking the time to visit Port Fourchon. It is the center of our industry and the jumping off point for much of our vessel activity. Unless someone has witnessed the port in action, as you have during your stay here, it is hard to adequately convey what a vibrant hive of activity and what an economic engine this region has become.

With that as a starting point, I would like to stress a few points about the vessels that work here and what they mean to our country.

The workboat fleet is the lifeline to America's offshore oil and gas industry.

According to the U.S. Minerals Management Service, there are some four thousand active platforms in U.S. waters. It is worth pointing out that every pipe, every wrench, every computer, all of the fuel, all of the drinking water and all of the groceries were carried to those facilities by vessels. The facilities were towed into place by our vessels and when they have completed their useful life, our vessels will help dismantle them. Large numbers of the workers who go to and from those facilities ride on our crewboats. A wide range of our vessels, from liftboats operating in just a few feet of water to huge well stimulation vessels operating deep in the Gulf of Mexico, are engaged in maintaining offshore facilities and in maximizing the oil and gas production. When a hurricane blows into the Gulf, our vessels carry the last workers ashore, sometimes in the very teeth of the storm.

In short, the vessels working in support of the oil and gas industry are the lifeline to America's offshore energy supply. A strong and thriving domestic industry is critical to the long-term success of that sector and to the nation's ability to draw on those resources.

The U.S.-flag vessels servicing the offshore energy sector are important to the local economies of the coastal states.

The domestic workboat industry is very much a homegrown industry. It was developed on the Gulf Coast after World War II in response to the newly created offshore oil and gas industry. It grew as the need for its services grew. In the process, it has always maintained its local flavor and has been a significant part of the local economy.

Our workforce is a national one. Work schedules give vessel crews the option of living anywhere in the country and returning to the coast for their three- or four-week hitches on the vessels. But this area has and will continue to produce the greatest number of skilled mariners who crew our vessels. They live here and pay their taxes here.

Most of the vessels are built nearby, creating jobs and a large web of construction and repair-related companies throughout the coastal states. According to one study, roughly half of the sales for commercial shipyards take place on the Gulf Coast, with offshore support vessel-related work accounting for a large percentage of that revenue.

Significantly, offshore vessels account for a disproportionately high percentage of the tax base that local counties and parishes receive from the offshore oil and gas industry. U.S.-flag vessels in the offshore sector pay property taxes locally. For

example, according to the tax assessor in Lafourche Parish, where Port Fourchon is located, watercraft taxes represent nearly one third of the entire tax base. It must be stressed that these taxes are only collected from U.S.-flag vessels. On those occasions when a foreign-flag vessel is allowed to work in U.S. waters, the local governments do not receive anything in property tax payments.

Our industry affects the region in ways that go beyond simple tax dollars. The companies that are members of OMSA and many of the crewmembers who work on their vessels have deep local roots that stretch back to the founding of the industry. They are not just a funding source for the community. They represent the community and they have the long-term interests of the community at heart. It is much harder to pull up stakes and take your operation somewhere else when you shop in the local stores, send your kids to the local schools and serve on the boards of the local churches.

The workboat fleet is one of the last truly American pieces of the offshore energy sector.

By law, vessels transporting merchandise or passengers or towing anything between points in America must be U.S. owned, crewed and built. These laws are commonly known as the Jones Act, the Passenger Vessel Act and the Towing statute. Together, the requirements that they place on vessels are important to the health of the industry and also to the health of America's energy policy.

Over the past few years, we have seen the Jones Act increasingly under attack by foreign vessel operators who use loopholes in the law to establish a corporate presence in the domestic trade. This has taken the form of complex lease finance agreements, narrow interpretations of the law and, most recently, mortgage arrangements in which foreign vessel owners bankroll U.S. companies. We have needed Congress' help in closing one loophole after another. I would like to stress that Congress' continued support for the Jones Act is critical.

The energy sector has become one of the most thoroughly internationalized industries in the world. It is now possible to go from the initial planning to the final production for an offshore prospect and have the entire process controlled by foreign companies, except for one segment—the vessels which support that project. They represent the only part of the U.S. offshore industry that must, by law, be under the control of Americans.

Much has been said of the dependence this country has on foreign sources of energy and on foreign companies that control the sources of energy. It is now more important than ever that we protect the connection that this country has to its own energy resources.

U.S.-flag vessels are critical to the security of the offshore fleet.

Security has emerged as one of the most important reasons that America needs to protect its domestic fleet and to maintain laws, like the Jones Act, which ensure that these vessels remain under U.S. control. There is little question that the U.S. government wants to protect its offshore energy sources from terrorism, but there is also little doubt that the government does not have the resources to provide that security on its own. The U.S.-flag fleet of vessels working offshore fills in the security gap. Much of the fleet is covered under Coast Guard-mandated security plans and most of the vessel crewmembers from OMSA-member companies have gone through industry security training. Our members work in close partnership with authorities to be the security eyes and ears for the offshore sector. With hundreds of vessels working in the offshore fleet and thousands of crewmembers keeping watch everyday, these vessels represent the true line of defense in our effort to protect the nation's offshore energy resources.

In closing, the U.S.-flag support vessels are and will remain a critical lifeline to America's offshore energy supply. It is more important than ever that the country recognize the role that this fleet plays in our economy, our self-sufficiency and our security.

Thank you.

